



ocado



DELIVERING
THE BEST PLATFORM FOR
ONLINE
GROCERY

Ocado Group plc
ANNUAL REPORT & ACCOUNTS
for the 52 weeks ended 30 November 2014





OUR PURPOSE

To deliver the best platform for online grocery and improve the customer shopping experience, with the clear objectives of driving strong growth and delivering long-term shareholder value.

WHO?

We are the world's largest dedicated online grocery retailer, operating our own grocery and general merchandise retail businesses in the UK under the Ocado.com and other specialist shop banners. We also utilise our technology and platform to operate the online business of Morrisons and intend to further use our platform to help international partners.

HOW?

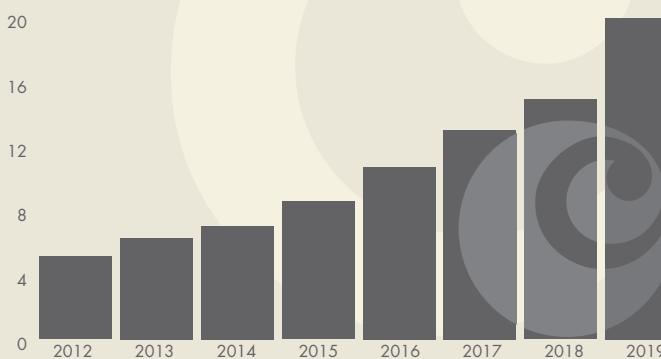
We have developed a unique end-to-end operating solution for online retail based on proprietary technology and IP, suitable for operating our own businesses and those of our commercial partners.

WHY?

The world is changing fast, driven by different shopping habits and ever more advanced technology for the consumer. Grocery is the largest of all retail segments and is moving online. Moreover, the rapid growth of shopping using mobile devices adds new challenges to traditional retailers. We are well positioned to take advantage of these long-term structural trends for the benefit of our customers, partners and shareholders.

UK ONLINE GROCERY MARKET SIZE

(£bn)

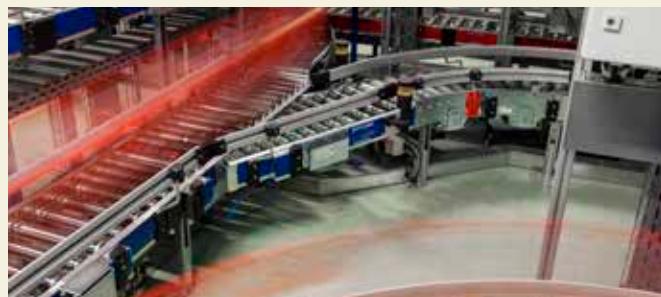


Source: IGD



OUR VISION

To continually develop innovative proprietary technology and IP enabling a world leading commercial and fulfilment platform for our own grocery and general merchandise businesses, and those of our commercial partners.



View more information about why people invest in us on page 5



View more information online at www.ocadogroup.com



Hear Tim Steiner, Chief Executive Officer, at www.ocadogroup.com



Scan the QR code with your smart device to watch Tim Steiner online

OUR RETAIL BRANDS

We operate our retail businesses under the following brands.



Both our corporate identity and our core grocery brand used for our shop and own-label products.



Our dedicated pet store.



Our dedicated kitchen and dining store.

OUR BRAND VALUES

GOING THE EXTRA MILE FOR THE CUSTOMER

"Our service is industry leading and leaves a smile on your face, with minimal substitutions, product life guarantees, delivered to your kitchen with clean feet and a smile – even if you are six floors up. Our technologies that enable us to provide this service are second to none, and constantly evolving. We will never rest on our laurels, nor accept 'good enough'."

DO THE RIGHT THING

"We are not a faceless corporate online – we pride ourselves on the personal touch. We have an honest relationship with our customers, suppliers, investors, staff and the community. We want to exceed their expectations and deliver on our own."

BE BETTER TOMORROW THAN WE ARE TODAY

"We have a culture of continuous innovation, leading the way with online grocery shopping: the first grocery shopping mobile apps, one hour delivery slots, smart packing technologies and green deliveries. We are ambitious, dedicated to progress and born to deliver. This is only possible by having some of the most dedicated people at every level and area within the business, all with one purpose – to continue to make things better than they were yesterday."

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"We have developed a unique end-to-end operating solution for online retail based on proprietary technology and IP, suitable for operating our own businesses and those of our commercial partners."

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View more information about
our strategy on pages 4 to 59



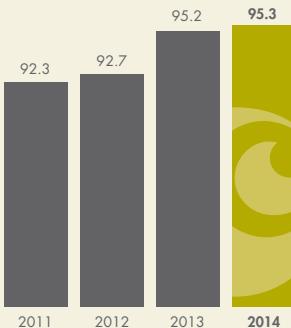
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OUR PROGRESS IN 2014

ON TIME OR EARLY (%)

95.3%

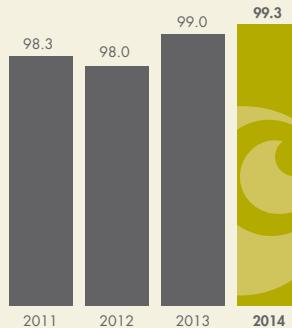
2013: 95.2%



ORDER ACCURACY (%)

99.3%

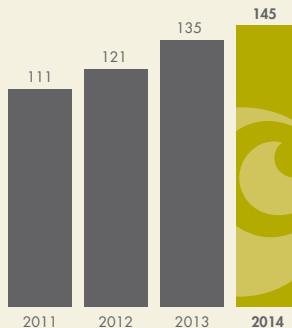
2013: 99.0%



CFC EFFICIENCY¹ (UPH)

145 UPH

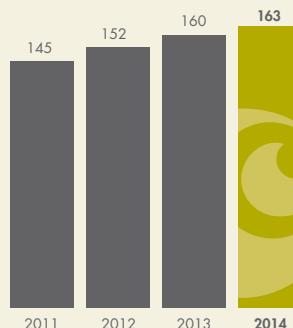
2013: 135 UPH



SERVICE DELIVERY (DPV/WK)

163 DPV/WEEK

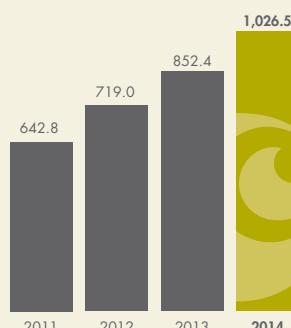
2013: 160 DPV/WEEK



GROUP SALES (£M)

1,026.5

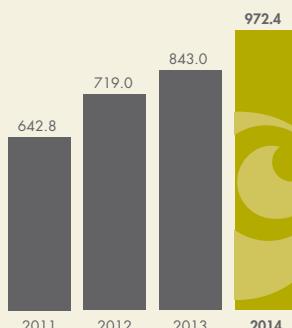
2013: 852.4



RETAIL SALES (£M)

972.4

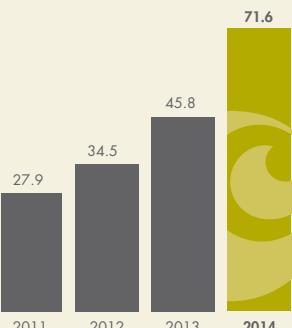
2013: 843.0



EBITDA (£M)

71.6

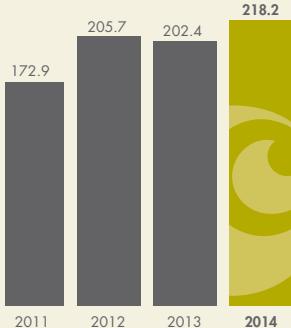
2013: 45.8



NET ASSETS (£M)

218.2

2013: 202.4



STRATEGIC AND OPERATIONAL HIGHLIGHTS

- Morrisons.com successfully launched on 10 January 2014
- Rolled out Fetch and launched Sizzle, our first dedicated destination sites in pet and kitchen categories, with over 8,000 and 12,000 SKUs respectively
- Developed new IP, with multiple patents filed
- Industry leading service levels improved further with on time deliveries 95.3% and order accuracy 99.3%
- Range at Ocado.com extended to over 43,000 SKUs
- Active customers increased to over 453,000
- Average order size² declined 1.1% to £112.25
- Mature CFC efficiency¹ improved to 145 units per hour ("UPH")
- Delivery performance improved to 163 deliveries per van per week ("DPV")

FINANCIAL HIGHLIGHTS

- Gross sales (Group) up 20.4% to £1,026.5m
- Gross sales (Retail) up 15.3% to £972.4m
- Revenue up 19.8% to £948.9m
- EBITDA up 56.3% to £71.6m
- Profit before tax and exceptional items of £7.5m (2013: loss of £5.1m)
- Net assets have grown by 7.8% to £218.2m.

1. Mature CFC operations (CFC is considered mature if it had been open 12 months by the start of the half year reporting period).

2. Average retail value of goods a customer receives (including VAT, delivery charge and standalone orders) per order.

WHY PEOPLE INVEST IN US

1.

LARGEST DEDICATED
ONLINE GROCERY
SUPERMARKET
IN THE WORLD

2.

SIGNIFICANT
MARKET
OPPORTUNITY
IN GROCERY, THE
LARGEST RETAIL SEGMENT

3.

IDEALLY
POSITIONED TO
BENEFIT FROM
CONTINUING
CHANNEL SHIFT
TO ONLINE



View more information
about our wider market
opportunities on pages
16 & 17



View more information about
our marketplace on pages
14 & 15



View more information about
disrupting the UK grocery
marketplace on pages
12 & 13

4.

PROPRIETARY
INTELLECTUAL
PROPERTY CREATING
SIGNIFICANT BARRIERS
TO ENTRY

5.

SUPERIOR
CUSTOMER OFFER
WITH LEADING
SERVICE, RANGE AND
PRICE PROPOSITION



View more information
about utilising proprietary
knowledge on pages
26 & 27



View more information about
driving growth on pages
20 & 21

6.

OPERATING MODEL
GIVES STRUCTURAL
ADVANTAGES AND
SUPPORTS A VIRTUOUS
CYCLE OF GROWTH
AND INVESTMENT



View more information
about how we generate and
preserve value on pages
10 & 11

7.

CONSIDERABLE
OPERATIONAL
LEVERAGE
EXPANDING
MARGINS



View more information about
our KPIs on pages 30 & 31

8.

COMMERCIALISING
INTELLECTUAL
PROPERTY OFFERING
SIGNIFICANT VALUE
CREATION FROM
PLATFORM
BUSINESS



View more information about
Ocado Smart Platform on
pages 28 & 29

9.

PROVEN
MANAGEMENT
TEAM DRIVING
STRATEGY
AND
EXECUTION



View more information about
our management on pages
62 & 63



CHAIRMAN'S STATEMENT

Lord Rose
Chairman



"Ocado is one of the small group of grocery retailers that continues to grow."

GROWTH

The UK retail market experienced significant change over the year. We continue to see an increase in the number of customers choosing to shop online for their groceries, which was reflected in an increase in our active customers of over 453,000. However, the grocery market has become increasingly competitive, with margins being placed under pressure from price discounting by grocery retailers. Despite these difficulties, Ocado is one of the small group of grocery retailers that continues to grow, with Group gross sales increasing by 20.4% and EBITDA increasing by 56.3%.

CUSTOMERS AND SUPPLIERS

It was a strong year for our non-food offering, with the launch of Sizzle, our new kitchenware store, and the continued success of our pet store, Fetch, with product ranges of over 12,000 and 8,000 products respectively. In addition, we are continuing to ensure a greater choice for our Ocado.com customers through an increase in our product range to over 43,000 products, including an increase in Ocado own-label products. We are also providing more opportunities for our suppliers, and hosted the "Britain's Next Top Supplier" competition, to help support upcoming, small suppliers.

EFFICIENCY

During the year, our efficiency has continued to improve, notably in Dordon, where the milestone of 100,000 deliveries per week was achieved, and after year end, the further milestone of 200,000 Ocado.com deliveries per week across both CFCs. We also started building work on a new CFC in Andover, Hampshire and have announced that we exchanged contracts on a site in Erith in the London Borough of Bexley for CFC4. We intend to install our next generation infrastructure solution in these new CFCs, which we expect to be cheaper and more efficient to run than our current CFCs.

View more information about driving growth on pages 20 & 21

View more information online at www.ocadogroup.com

INTELLECTUAL PROPERTY AND INTERNATIONAL

We have successfully utilised our expertise, infrastructure and technology to provide services to our first strategic customer, Morrisons. We continue to invest in the innovation and development of our intellectual property and technology, in preparation for future international growth. The Board remains committed to finding further strategic customers, monetising our intellectual property and supporting and overseeing the executive team in the creation of greater long-term shareholder value in our business.

CORPORATE GOVERNANCE

One of the Board's responsibilities is ensuring that the Group applies good governance to facilitate effective management of a rapidly growing business. As the Company's Chairman I am pleased to note that the Group is fostering an environment of innovation and progress in a framework of strong governance and risk management, evidenced by the Group's recent award for corporate governance at the Building Public Trust Awards 2014 in respect of the Group's 2013 annual report. A detailed statement on corporate governance for 2014 can be found on pages 62 to 89.

BOARD CHANGES

Jason Gissing, co-founder of Ocado and Commercial Director, retired from the Board at the Group's annual general meeting in May 2014. On behalf of the Board, I would like to thank Jason for his contribution to the Group, and wish him every success in the future.

THE OCADO FAMILY

We are fortunate enough to have exceptionally talented and dedicated employees. On behalf of the Board, I would like to thank all members of the Ocado family for their contribution throughout the year.

"We continue to invest in the innovation and development of our intellectual property and technology."

"The Group is fostering an environment of innovation and progress in a framework of strong governance and risk management."

Lord Rose

Chairman
Ocado Group plc

SHARE PRICE CHART

Share price for London (Ocado): 30 Nov 2013 to 18 Jan 2015



CHIEF EXECUTIVE'S INTERVIEW

Tim Steiner
Chief Executive Officer



"In building our retail business using proprietary knowledge and technology solutions, we have developed an entire end-to-end platform for operating grocery retail online"

 View more information about Ocado Smart Platform on pages 28 & 29

 View more information online at www.ocadogroup.com

 To hear more from Tim Steiner visit www.ocadogroup.com



Scan the QR code with your smart device to watch Tim Steiner online

SUPERIOR ECONOMIC MODEL

Q Why do you believe that you have a superior economic model for online grocery retailing than your competitors?

A Grocers have always strived to operate at the lowest level of cost, given the low margin nature of the industry. For online our centralised model allows us to reduce the cost of our supply chain, to aggregate scale, and to justify investment in automation and technology solutions, which drive down the unit cost of fulfilling orders. Our peers' use of existing assets (shops) or smaller warehouse facilities (so called dark stores) does not afford them the same benefits.

At the same time, our model allows us to provide to our customers the best quality service in the industry, together with wider ranges and with scale, at ever more competitive prices.

PRICE ACTIVITY

Q There has been a lot of recent commentary about price wars in the UK food retail sector. What is your view and how does it affect Ocado?

A Price is one of the key elements which persuade customers to shop with a retailer, and a recent focus has been how some of the mainstream supermarkets demonstrate their price competitiveness against the discount players.

As a price follower (our price comparison currently matches against the largest player, Tesco) there may be some impact of this activity on Ocado. However, given our wider range than other competitors, the overlap of products impacted by price activity is likely to be more limited. We continue to grow sales volumes and improve operational cost efficiencies so that helps protect us from significant margin impact.

It is important to note that consumers who wish to shop online also pay great attention to product quality, freshness, availability, range and the reliability of the service provided – all of which we continue to focus on delivering to the highest standard.



CFC3 AND CFC4

Q You announced plans for your next two CFCs. What are the details and why are they needed?

A Our third CFC will be located in an existing building in Andover, in the south of England and is due to open at the end of 2015. Our fourth CFC will be located in a new development in Erith in the London Borough of Bexley. This will be in a brand new building – work will commence on site in 2015 and it is due to open in 2017. With growing customer demand, it is important we plan for future capacity carefully to avoid having to constrain the growth of our business.

The new CFCs will house the first installations of our next generation infrastructure solution. We own the design and IP rights for this solution and control the manufacturing, and we expect to have lowered the capital cost for fulfilment when viewed against CFC2 in Dordon. It should also be more efficient to operate.

The Andover CFC will be smaller than previous CFCs, capable of generating around 65,000 orders per week, or approximately £350 million in annual sales whilst the Erith CFC will be larger, capable of generating in excess of 200,000 orders per week or approximately £1.2 billion in annual sales. This demonstrates the modularity of this infrastructure. It is also scalable (it can be built in stages) and is fast to deploy (in both sites, less than 18 months from securing the building). All of these attributes add significant flexibility to capacity planning for our retail business and for our future partners.

INTERNATIONAL OPPORTUNITIES

Q Can you tell us more about your plans outside the UK?

A In building our retail business using proprietary knowledge and technology solutions, we have developed an entire end-to-end platform for operating grocery retail online. We entered into our first agreement with Morrisons to utilise this platform for their business, and believe there are significant opportunities to use our platform to power multiple online retail businesses internationally.

We intend to partner with retailers, who will own and use their existing customer and supplier relationships, and we will provide the operating and infrastructure platform (we call this Ocado Smart Platform) for them to rapidly launch and build scalable, profitable online businesses, with the capability to provide attractive propositions to their customers.



HOW WE GENERATE AND PRESERVE VALUE

OCADO IS A PURE-PLAY ONLINE OPERATOR

Ocado is entirely focused on online activities. We are not burdened by a legacy estate of existing supermarket outlets, which are facing declining sales volumes, margin pressure and less flexibility to invest in the proposition to the customer.

Since formation we have developed a unique end-to-end platform solution for online retailing. Our know-how and expertise allows us to provide a best in class proposition to the customer, delivering continuing growth in the UK market and monetisation opportunities overseas.

MANAGING OUR RELATIONSHIPS

We have three principal types of relationships we are constantly managing – our customers, our product suppliers and our commercial partners to whom we are a supplier of IP and services.

Our objective is continually to improve each element of the proposition to our customers, and to ensure we communicate how our service is evolving for their benefit. We constantly seek to improve how we engage with customers, removing the inertia for them to shop with us, and to encourage them to shop repeatedly with us through providing a better offer to them.

We have good relationships with our suppliers, including the global consumer product companies supplying branded ranges, food producers supplying private label selections, and smaller niche, international and speciality suppliers. Part of our supply arrangements involve Waitrose, with whom we have a sourcing arrangement combining our respective volumes to receive better supply terms, and also allowing us to sell Waitrose branded products.

In July 2013, we entered a 25 year agreement to provide the technology infrastructure and operating services to launch and run Morrisons.com, the online business of Wm Morrison Supermarkets PLC. Morrisons.com successfully launched on 10 January 2014. This is the first of our so-called "platform" relationships, and we anticipate opportunities to develop arrangements with international commercial partners in the future.

WHAT DIFFERENTIATES US?

Throughout our history, our focus has been on developing the best platform for online grocery retailing. This single-minded focus has enabled us to develop market leading logistics and physical infrastructure solutions, driven by proprietary technology and innovation. We have often been the benchmark for the online grocery industry constantly looking to improve industry standards, from providing one hour delivery slots to being the first to launch a fully transactional app for the iPhone in 2009. Underpinning all of this are our people, their commitment, knowledge, expertise and unity in working with a common goal.

DELIVERING SUSTAINABILITY TO OUR CUSTOMERS

The advantages our operating model brings ensure that we can offer a consistent, sustainable and reliable service to customers. Better stock predictability enables better fulfilment and freshness of product. The economic benefits of our model will enable future investment into the proposition driving a virtuous and sustainable cycle of growth.

Our model generates less waste than physical retailers for the same sales of fresh product, uses less land, requires less buildings, and wastes less energy (with as an example, no open chiller cabinets in centrally heated store environments), and for every delivery route we save up to 20 customers having to drive to the store.



View more information about corporate responsibility on pages 50 & 55

MANAGING OUR RELATIONSHIPS



PROPRIETARY KNOWLEDGE AND IP

View more information on our IP on pages 22 to 29

WHAT DIFFERENTIATES US?



DELIVERING SUSTAINABILITY TO OUR CUSTOMERS



OUR MODEL

Our objective is to operate a high quality service at the lowest possible cost and to create a virtuous cycle between growth, efficiency and investment. We achieve this through combining three key elements – the aggregation of scale into single facilities, the automation of many processes and the application of proprietary knowledge – to remove significant costs commonly incurred by physical retailers.

Our centralised approach allows us to aggregate greater scale into single locations, and to invest in automation to replace many of the manual tasks in the retail supply chain. We utilise our proprietary end-to-end technology platform to optimise our entire operations from the user interfaces, the stock and order processing systems and through to the final delivery to the customers' homes.

Our model enables us to invest in the proposition to customers in the form of wider ranges at competitive prices and a market leading service. Our improving proposition enables us to grow faster, and with increasing scale we benefit from improved efficiencies and expanding margins, which can be used to further invest into the proposition to encourage more growth. As we get bigger our relative purchasing position also improves. The efficiencies inherent in our model will increasingly outweigh any purchasing disadvantage due to our relative small scale today.



DISRUPTING THE UK GROCERY MARKETPLACE

"We have developed a different way of operating . . . more suited for online shopping"

EVOLVING WITH CHANGING CUSTOMER BEHAVIOUR

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

Customers are encouraged to change the way they shop by perceived improvements to the shopping proposition offered to them. This might be in the form of lower prices, wider ranges, more convenience, fresher products or better service levels.

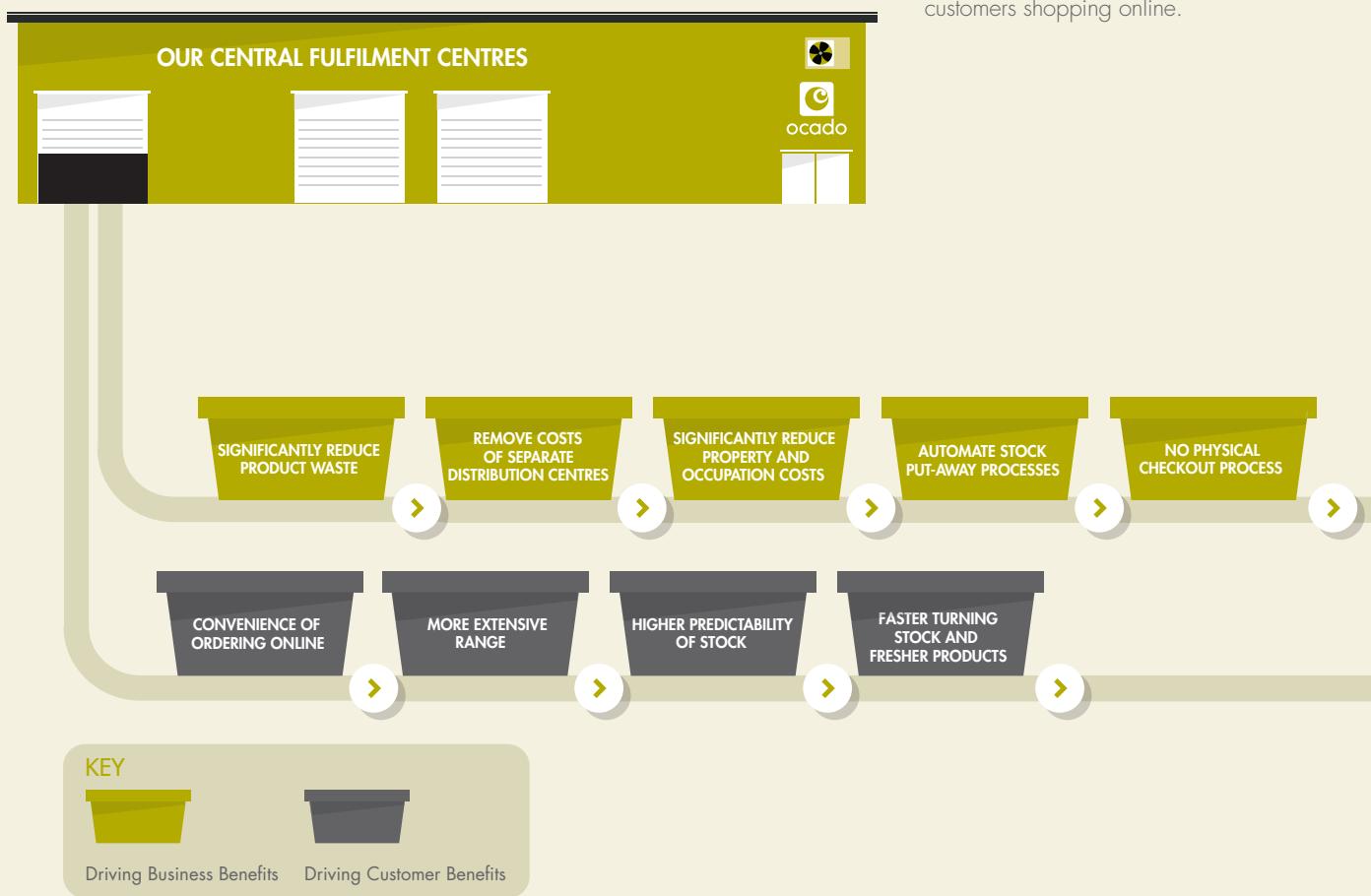
Other social and economic changes have contributed to changing shopping patterns, for example wider car ownership, that has supported the growth of larger out of town stores. Today, the biggest social change is the advancements in technology and how these have impacted on daily life. Wider internet access through personal computers, and more significantly, mobile devices harnessed with increasingly faster broadband speeds, enable people to live their lives using technology more than ever before.

This is reflected in ever increasing numbers of consumers shopping for groceries online. Customers are attracted by the convenience that online can bring enabled by the advancements in technology. As the UK's largest dedicated online grocery retailer, we have been able to place our focus on improving the proposition we offer to our customers. We believe this has encouraged others in the industry to improve their own service offerings to compete, which encourages growth in the number of customers shopping online.

 View more information about maximising efficiency on pages 22 & 23

 View more information online at www.ocadogroup.com

REMOVING SIGNIFICANT COSTS THROUGH THE SUPPLY CHAIN



WHY THE OCADO APPROACH IS DIFFERENT

We have two primary considerations – improving the quality of our proposition for our customers while delivering best in class service at the lowest economic cost.

We have developed a different way of operating to the traditional store approach, and one that we believe is more suited for online shopping, fulfilment and delivery.

We have no physical stores, instead using large CFCs where all stock is received and held, and all customer orders are picked. We have automated many of the tasks that are manual in store-based retailing to drive down the operating costs in our operations. We apply proprietary technology, software and algorithms, to optimise our end-to-end operations, from the front end user interfaces, through the entire warehouse operations to the sophisticated routing software making over 3 million calculations a second to optimise van routes. The combination of these elements allows us to lower or eliminate many of the costs which are incurred in traditional grocery retail operations.

INCREASING EFFICIENCIES

Our operating model enables us to remove several layers of cost. We remove the requirement and cost of separate (regional) distribution centres to receive stock from suppliers, re-palletise and redistribute to stores or dark stores, as we receive the majority of our stock directly from suppliers. We automate the "put away" process reducing operating costs. We have no physical checkout process, because we have no stores, further reducing labour costs.

Our significantly faster stock turn and advanced picking systems reduces product waste, representing both a cost saving and a more sustainable food supply chain. Our property occupation costs are low, for example through the use of relatively cheap real estate (warehouse space), lower energy usage, and better economies of management and scale.

THE VALUE OF OUR OPERATING MODEL TO CUSTOMERS

The predictability and precision with which we operate our fulfilment enables us to provide what we believe to be the leading service to customers, in terms of accuracy of pick and delivering on time (in a one hour time slot). Our model is very conducive to a large product range, as our infrastructure allows for dense storage and our stock has to be held in only a limited number of locations.

We have higher predictability of stock, which improves our ability to fulfil customers' orders accurately and with minimal substitutions. With a supply chain that is generally shorter and the scale of facilities much larger than stores, our stock turn is much faster often enabling us to deliver fresher products; in fact we guarantee life of our fresh products. The cost savings generated as a result of our operating model allows for investment into the offer, giving the customer good value at competitive prices.

THE OCADO WAY



SOLELY FOCUSED ONLINE CHANNEL



OUR CENTRAL FULFILMENT CENTRES

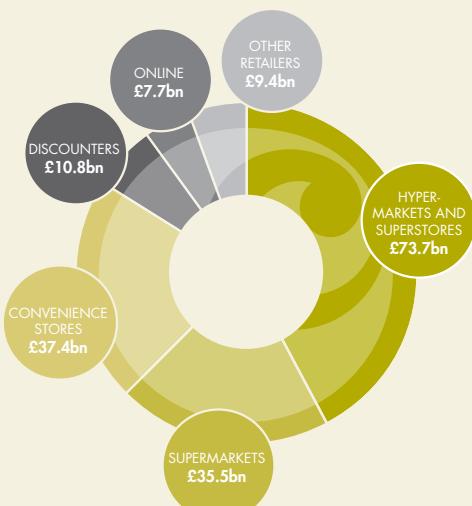


OUR CUSTOMERS HOMES



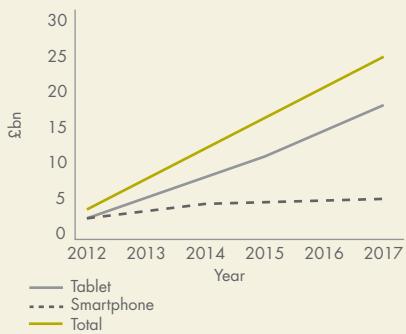
OUR MARKETPLACE

CHANNELS THAT MAKE UP THE UK GROCERY MARKET (2014 SALES)



Source: IGD

UK MOBILE RETAIL SALES



Source: Adactus

UK RETAIL

The grocery market in the UK is substantial. IGD estimates that in the year to April 2014, UK grocery sales reached almost £175 billion, representing almost 55% of all retail spending.

While still accounting for over 60% (IGD) of all grocery sales, the so called "big box stores" (supermarkets, superstores and hypermarkets), have been reporting slowing, or no, sales growth, and in many cases absolute declines.

Growth in grocery retail has traditionally been driven by the opening of new store space, either through the opening of new stores or extension of existing shops, creating a "space race" model for growth. This has been dependent on growing customer footfall to fill the expensive real estate. However, the grocery retail industry is undergoing significant change, with new store formats, notably hard discount and convenience stores, growing much faster than traditional supermarkets. These formats have been able to drive an advantage in a particular element of the proposition to customers, be it price or convenience.

Moreover, there has been continued significant growth in online grocery shopping. This shift in channel, away from physical shops, is arguably the most significant. With online, there is the

opportunity to improve every element of the proposition for the customer, giving the benefits of more service and greater usability, wider choice of products and better value for money. With each element of the proposition improving, and enabled by ever improving technology advances, more customers are encouraged to adopt the new retail channel.

THE CONTINUING CHANNEL SHIFT

Evidence suggests that customers are shopping online for their groceries in ever increasing numbers with IGD estimating that 4.4% of UK grocery shopping is now online at £7.7 billion, and anticipates that this will nearly double to over 8.3% of the market by 2019. More recent data suggests mobile devices are increasingly used for online shopping with mobile now the fastest segment of online growth.

We have seen other segments of retail migrate online with very significant impact. We have built our business to be at the forefront of, and to benefit from, this next channel shift in the grocery industry.

Channel shift is driven by improvements in the overall quality of the proposition presented to the customer. We explore on the next page the key proposition drivers and how online, and in particular Ocado, improves these supporting the continuing growth of the channel.

SIZE OF THE UK GROCERY MARKET



Key proposition drivers

Service

- Reliability
- Ease and convenience
- Personalisation

How we're responding

We provide industry leading service in terms of timeliness and order accuracy. Our technology also enables us to make the shopping interfaces increasingly simple to use and personalise the shopping experience for each customer.

Online shopping returns time, service and convenience to the customer, with the retailer performing the tasks the customer does in a physical store (driving to the store, walking the aisles and picking items, packing product at the checkout, loading the vehicle (car) and delivering to home).

Range

- Extensive range offering more choice of quality, relevant products
- Ease of navigation

Our centralised fulfilment model enables us to carry a greater range than stores, giving the customer the ease of shopping from a greater product selection from the comfort of their own home. We have now introduced additional dedicated "department stores" for certain product categories.

Price

- Offering good value
- No more expensive than the store
- Acceptable service charges trending down

Product prices online today (in the UK) are broadly the same as in the store, with a modest delivery fee. Our model will enable us in the future to drive prices down as we scale our business and return the benefit to our customers.

PRICE COMPETITION

Recent attention has been placed on price competition in the UK grocery market.

The continued growth of the hard discount format – smaller format stores offering limited ranges, mostly private label, at relatively competitive prices – has driven an increased focus on price, or rather price perception, from the larger players.

The key areas for much of the recent price activity has been in private label fresh produce items, key value items in dairy, fruit and vegetables, with some meat and fish categories. There has been less price focus on branded products, with some promotional activity reducing.

While we have less range overlap with the hard discount retailers, we offer competitive prices on the quality products we sell, with price commitments to match the market leader on comparable baskets and identical items.

Our continuing growth enables us to generate further efficiencies through improved operational leverage in our business, which supports our ability to invest in all elements of the proposition to customers, including prices.

CANNIBALISATION

Each of the leading grocery retailers has its own online operations today, mostly using its existing physical stores to fulfil online orders. Some have started to build so called "dark stores", stores without customers or in effect smaller warehouses with no or limited automated processes. The one exception is Morrisons, which uses our technology platform and fulfilment knowledge and services to run Morrisons.com.

The one challenge common to all incumbent physical retailers as they move online is the cannibalisation of their existing store businesses. With footfall declining in stores as customers migrate to online shopping, each store operator will cannibalise the sales in a store, either that of a competitor or its own. If most major store operators are growing online, together with our pure-play online model, the store channel will continue to suffer significant cannibalisation of sales in the future.



View more information about Morrisons.com on page 26

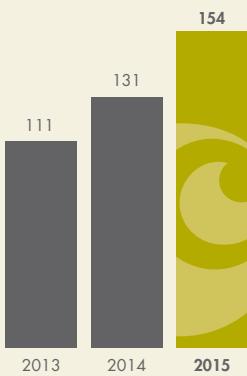
"Online shopping returns time, service and convenience to the customer."

"We have built our business to be at the forefront of . . . this next channel shift [to online] in the grocery industry."

OUR WIDER MARKET OPPORTUNITIES

ONLINE RETAIL SALES EUROPE (£bn)

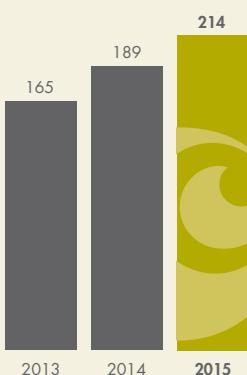
2014–2015: +18%
2013–2014: +18%



Source: Centre for Retail Research

ONLINE RETAIL SALES US (£bn)

2014–2015: +13%
2013–2014: +15%



Source: Centre for Retail Research

INTERNATIONAL CHARACTERISTICS

Grocery is not only a significant business in the UK. Grocery shopping represents around half of all retail spend in most developed countries and significantly more in developing markets. This makes for a huge underlying market opportunity on a global basis.

WORLD'S BIGGEST GROCERY MARKETS

However, there are great differences in what and how food is purchased across the world. Grocery retailing is in so many ways a "local" business. While product brands can be global in nature, customer preferences, retail brand recognition and loyalty are driven locally. Equally as important is product-sourcing capability, which tends to be managed through local account managers, and the value of sourcing produce and protein ranges locally speaks for itself.

LESSONS LEARNED FROM INTERNATIONAL EXPANSION

The world's largest grocery retailer operates in a fraction of the world's countries, with most food retailers having mixed success expanding internationally.

When expanding outside their home markets, grocery retailers' main assets lie in real estate which is not portable. While each may have retail skills, generally retailers do not possess any of the key local attributes – brand recognition, local customer preference or loyalty, or sourcing capabilities – critical for building a successful local grocery business. Gaining traction as a new entrant to a market can take time and may prove to be very expensive in terms of costs and resources.

INTERNATIONAL GROWTH ONLINE

Online grocery shopping has been slower to develop outside the UK. We believe the attractions of shopping online should appeal as much to consumers internationally as those in the UK. However, online requires similar pricing and high levels of service to be attractive. If customers are not offered a fast, reliable and accurate service, then few are likely to adopt the online channel.

In the UK, where the proposition online has become increasingly attractive versus the existing store channels, adoption has gathered pace. We believe the quality of our proposition, including the quality of our interfaces and our one hour delivery slots, has meant that others who have entered the online market in the UK have also had to offer improved services, usability, and interfaces, which in turn drives market growth.



"The attractions of shopping online should appeal as much to consumers internationally as those in the UK."

UNIQUELY POSITIONED TO TAKE ADVANTAGE

Ocado has developed an entire end-to-end solution for operating online in the grocery market, vertically integrated across software and hardware solutions. This enables us to replicate these capabilities for partners in other markets for a significantly lower cost than the alternative options available for them. We intend to use our Ocado Smart Platform with partners internationally, harnessing the capabilities of our platform with partners' local retailing skills and attributes, enabling them to build sustainable, scalable and profitable online grocery businesses in their own markets.

Ocado Smart Platform offers to partners a faster, flexible and more cost-efficient way of entering or relaunching the online grocery market. By offering the only fully integrated end-to-end platform available, we are uniquely positioned to take advantage of the growing global trend of online food shopping.



"Grocery shopping represents around half of all retail spend in most developed countries."

"[with] Ocado Smart Platform . . . we are uniquely positioned to take advantage of the growing global trend of online food shopping."



 View more information about Ocado Smart Platform on pages 28 & 29

 View more information online at www.ocadogroup.com

OUR STRATEGY

We drive shareholder value by continually developing an innovative world leading platform for our own grocery and general merchandise businesses, and those of our commercial partners. We develop our strategic objectives through a number of complementary actions applicable to each objective.

OUR OBJECTIVES



DRIVE GROWTH



MAXIMISE EFFICIENCY



UTILISE PROPRIETARY KNOWLEDGE

OUR ACTIONS



CONSTANTLY IMPROVE PROPOSITION TO CUSTOMERS



STRENGTHEN CONSUMER BRANDS



DEVELOP EVER MORE CAPITAL AND OPERATIONALLY EFFICIENT INFRASTRUCTURE SOLUTIONS



ENHANCE END-TO-END TECHNOLOGY SYSTEMS



ENABLE MORRISONS AND FUTURE PARTNERS' ONLINE BUSINESSES



View more on pages 20 to 27

OUR KEY PERFORMANCE INDICATORS



DRIVING GROWTH

- Active customer base
- Average orders per week
- Average order size
- SKU count



MAXIMISING EFFICIENCY AND UTILISING PROPRIETARY KNOWLEDGE

- On time
- Order accuracy
- UPH
- DPV/Week
- Product waste



View our Key Performance Indicators on pages 30 & 31

ONLINE WILL BE THE FASTEST GROWING CHANNEL IN GROCERY OVER THE NEXT FIVE YEARS



* Source: IGD. IGD channel forecast figures are for year to April

STRATEGY ALIGNED TO TAKE ADVANTAGE

With IGD predicting that the online grocery retail segment will almost double to 8.3% of total UK grocery sales over the next five years, we believe we have a strategy aligned with this market opportunity. Our strategic objectives are designed to enable us

to continue to innovate to improve the quality of our offer to our customers and the efficiency of our operations, adding to the value in our IP platform.

HOW WE HAVE PROGRESSED WITH OUR STRATEGY THIS YEAR

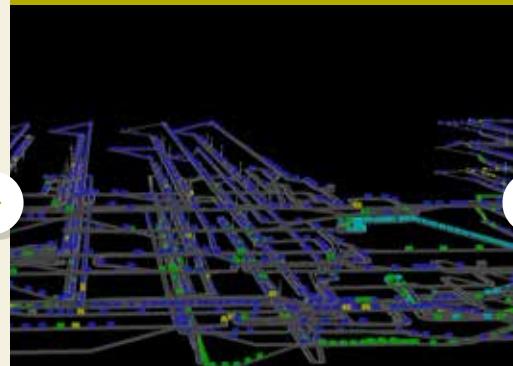
We have continued to make good progress with our strategic objectives during 2014. Our growth has continued, with Group gross sales up 20.4%, against a difficult market backdrop. The efficiency of our existing operations has continued to improve, and we announced plans for more capital and operational efficient

fulfilment facilities in the future. We continued to develop and use our IP throughout our business to drive growth and efficiency. Moreover, we supported the start of operations for Morrisons.com, our first commercial platform partner.

DRIVING GROWTH



MAXIMISING EFFICIENCY



UTILISING PROPRIETARY KNOWLEDGE



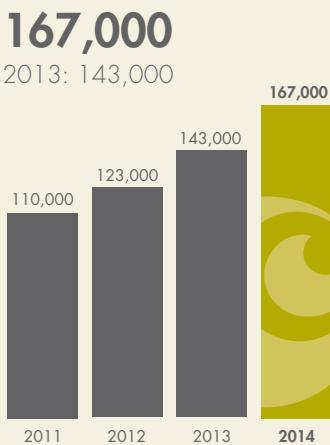
View more information about driving growth on pages 20 & 21

View more information about maximising efficiency on pages 22 & 23

View more information about utilising proprietary knowledge on pages 26 & 27

DRIVING GROWTH

AVERAGE ORDERS PER WEEK



OUR RETAIL BUSINESSES

We drive growth in our retail operations by improving the proposition to our customers – the quality of the service we offer, the selection of quality products we sell, and our ability to sell products at competitive prices, thereby strengthening our consumer brands.

This is enabled and supported by our development of both more capital efficient and operationally efficient infrastructure solutions, and further enhancement to our end-to-end technology platform.

Customers adopt new ways of shopping if they consider it more attractive to do so. There are two primary points of interaction with our customers – at the time of ordering on the customer interface and at the point of delivery. We seek to provide the best possible experience for our customers at both of these points

Making it easier to shop

Convenience is a major driver to shopping online. Being able to order “anytime, anywhere” using intuitive and easy-to-use interfaces is very important.

Our in-house software development allows for the rapid introduction of new functionality, be it new website developments or the latest mobile apps. Customers shopping with mobile devices have continued to grow significantly, with 48% of our sales now transacted using mobile devices. This reflects the steady advancement of technology which has continued to change the way people live, with some customers today not owning or using wired devices in their homes.

We have continued to improve our shopping interfaces making it easier for our first time customers to start shopping with us, and increasing the level of personalisation.

The highest delivery standards

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

Consistent order reliability is essential for customers. Our operating model, combined with our proprietary optimisation software, leads to what we believe to be unrivalled reliability with 95.3% on time and 99.3% order accuracy.

Customers expect high stock availability and minimal substitutions within a short time frame. Our deliveries are available next day, with same day available in some postcodes. We offer one-hour time slots seven days a week, and the largest number of slots available in the market, from 6 am until 11.30 pm.

Proprietary integrated systems control our product flow which, when combined with the scale of our CFCs, leads to higher product availability. This reduces the chances of products being unavailable and minimises substitutions.

Our expanding range

Customers want a wide selection of products, and will be more inclined to shop where choice, and freshness, is greater. Offering more of the groceries a customer desires in one store reduces the requirement to visit elsewhere to complete the weekly shop.

Our current range of over 43,000 SKUs gives Ocado.com the most extensive supermarket range today. We intend to continue to increase the range of products we sell. Our operating model and facilities allow us to expand range relatively easily with limited stockholding exposure, enabling us to stock many specialist and niche lines as well as everyday favourites.

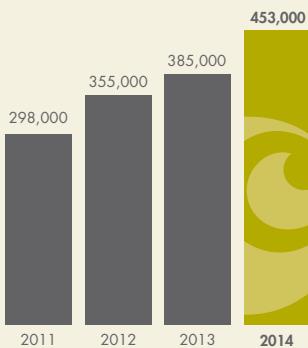
We have extended our selection into many general merchandise categories – for example pets, kitchenware, babies, the home, health and beauty products and gift items – giving customers the opportunity to purchase some of these items together with their grocery shop.

“Our product life guarantee gives confidence to customers that their groceries have a stated minimum remaining life when delivered.”

ACTIVE CUSTOMERS

453,000

2013: 385,000



With the freshest products

As well as convenience, customers want the freshest products. We guarantee the product life of our fresh food.

Our operating model removes one stage of the grocery supply chain, as our stock is typically delivered directly to us by our suppliers or wholesalers, which when combined with rapid stock turn means we often deliver product to customers the same day or next day following receipt into our CFCs. This can be quicker than other supermarkets can get most of their products into their own stores.

Our product life guarantee gives confidence to customers that their groceries have a stated minimum remaining life when delivered.

Dedicated stores

We have launched additional online shops dedicated to specific product categories, which represent the next stage of development of our general merchandise strategy of having separate destination sites for key categories.

The first of these is Fetch, our dedicated pet store that carries more than 8,000 pet products including the premium pet food ranges that are not typically sold in supermarkets including James Wellbeloved, Hill's and Frontline. The most recent shop is Sizzle, a kitchen and dining store with over 12,000 products including Villeroy & Boch, Global, Kenwood and LSA. We plan to launch additional destination sites in the future to further extend our offer to customers, and announced in 2015 our intention to launch a beauty business with Marie Claire.



Fetch.co.uk



Sizzle.co.uk

Our price commitments

Shoppers want to feel that they receive good value and can even save money by shopping online. The automation and aggregation of our operating model strips out costs and increases efficiency. These cost savings allow us to offer products at competitive prices.

We introduced the UK's first grocery market price matching initiative in 2008, and continue to use price-matching commitments to give consumers confidence about the cost competitiveness of their basket of shopping when bought at Ocado. We work hard with our suppliers to provide to our customers market leading promotions. Our strategy of range extension, offering shoppers a greater choice of products in the same category at different price points, particularly driven by the growth of the Ocado own-label, continues to be popular with customers.

OUR PLATFORM BUSINESS

In building our retail businesses, we have gained significant knowledge and know-how, and have developed extensive proprietary systems, software and optimisation engines. In effect we have developed an entire end-to-end proprietary platform for operating online business in grocery and other retail segments.

We believe there are significant opportunities to create economic value using this platform. The first example of this is our agreement with Morrisons to launch and operate Morrisons.com.

We consider this significant validation of our operating model and important as we explore new opportunities to monetise our proprietary platform internationally in the future.

The underlying technology which enables our strong proposition to customers to drive growth, supports Morrisons.com and will be available to retailers in the future using Ocado Smart Platform.



MAXIMISING EFFICIENCY

"We combine the aggregation of scale . . . with the use of automation and optimisation technology to drive the overall efficiency of our business."

"The in-house nature of our software development allows for rapid solutions."

LOWERING COSTS

Our goal is to provide the best way for our customers to make their regular grocery shop at the lowest cost. We believe in a centralised approach to fulfilment, which gives a number of significant service and efficiency benefits.

We combine the aggregation of scale into large facilities with the use of automation and optimisation technology to drive the overall efficiency of our business.

OUR CFCs

We have developed unique fulfilment capabilities automating many manual tasks and applying technology solutions and optimisations to operate at the lowest possible cost. This involves optimisations throughout the operation – from receiving, putting away and managing stock, picking and organising orders, to the order dispatch, and efficiently routing delivery vehicles to customers' homes.

This enables us to operate with high accuracy and availability, both critical to providing customers with consistent and timely service.

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

We now operate the world's two largest and most sophisticated single pick grocery stores, our CFCs in Hatfield and Dordon. Our CFCs form a critical part of the unique end-to-end solution we have developed for online grocery retail. The Dordon CFC, which opened in 2013, has the capacity to generate over 180,000 orders per week, equivalent to around £1 billion in annualised sales.

We typically pick and pack for individual customers up to 1 million items of groceries per day in a single CFC. Our CFCs are designed and built to handle the unique challenges that exist in picking groceries with speed, accuracy and efficiency. This complexity exists when you consider we pick a basket of multiple items (typically over 50) across three different temperature zones and having a customer's order ready to go on the delivery vehicles in the same short time window as the other multiple orders going on the same vehicle.

FUTURE CFCs – CFC3 AND CFC4

In July 2014, we announced plans for our next CFC, located in Andover in the south of England. Significantly, Andover CFC will be smaller than our existing CFCs (capable of 65,000 orders per week or approximately £350 million in annual sales value), but critically will be more capital efficient (using capital expenditure to sales capacity).

We will achieve this improved capital optimisation through the use of our own proprietary physical infrastructure solution, which we have been developing over the last few years. With control over the IP and the manufacturing and installation process, we plan to drive the costs down further.

This infrastructure is modular in nature and can be built almost any size. It is also scalable (it can be built in stages), and is



faster to deploy than our previous solutions (we plan to open Andover by the end of 2015).

Each of these attributes is attractive in adding flexibility to our fulfilment capacity planning for our UK retail businesses, and for our platform business, including for Morrisons.com, offering to future partners the opportunity to start with a smaller initial capacity.

In January 2015, we announced plans for our next location, CFC4, located in Erith in South East London inside the M25. The landlord will start construction on this site in 2015, and we will take occupation during 2016, with this CFC expected to deliver its first orders in 2017. Like CFC3, this will use our proprietary infrastructure, and so will be built in stages but will be capable of handling in excess of 200,000 OPW.

HUB AND SPOKE DELIVERY SYSTEM

We operate a hub and spoke system for our deliveries. All stock is stored and picked in our CFCs (the hubs) and non-food distribution centre. Delivery is made direct to customers' homes from hubs to local catchment customers, with the remainder of orders being "trunked" to spoke sites, from where local delivery takes place.

We forecast future delivery capacity requirements for our retail business and that of our partner, Morrisons, developing our spoke network with additional sites. During the year we opened spokes in Ruislip, Enfield, Sheffield and Knowsley. After the period end, we opened a spoke in Dagenham, and in February 2015 we are due to open a spoke in Park Royal to replace our smaller White City spoke.

We have acquired additional sites and expect to add further spokes in 2015 to satisfy the increasing demand for our business and our partner's business.

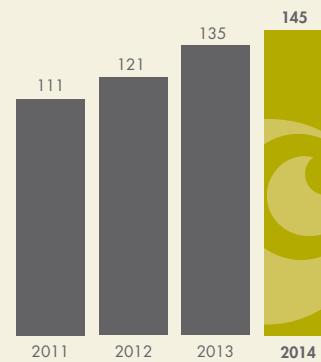
PRODUCT WASTE LOW AND REDUCING

Our centralised model enables us to carry low inventory levels, and despite our relatively high proportion of sales of fresh and chilled products (over 40%), we believe we operate with the lowest product waste in the industry (at significantly less than 1% of sales). This reflects the freshness of the products we deliver to our customers and underlines the relative environmental benefits of our operating model.

CFC EFFICIENCY

145 UPH¹

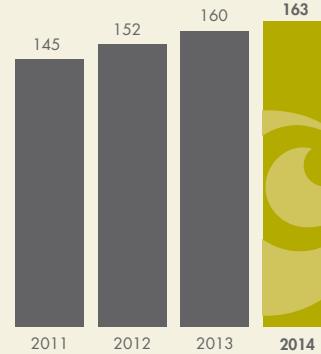
2013: 135 UPH



SERVICE DELIVERY EFFICIENCY

163 DPV/WEEK

2013: 160 DPV/WEEK





WE HAVE DEVELOPED
A WORLD LEADING
TECHNOLOGY SOLUTION
THAT POWERS OUR
OPERATING BUSINESS
MODEL FOR ONLINE
GROCERY RETAIL

OCADO SOFTWARE SYSTEM REPLATFORMING

BACKGROUND – WHAT IS IT?

We have developed a world leading technology solution that powers our operating business model for online grocery retail; recently we have used this technology to build our non-food destination stores. Although we developed this solution to power the Ocado retail business, it was always our intention that one day we would make this technology available to other retailers. The deal we signed with Morrisons in 2013 to put their grocery business online was an important step on that journey.

To remain at the forefront of change in the grocery industry it is important that our technology solutions are able to take advantage of the latest developments in using cloud and next-generation software tools.

Therefore, before we make our solution available to multiple retailers in multiple countries, we have chosen to undertake a major replatforming exercise, using the expertise of the Ocado technology team. This involves migrating our solution to the cloud and in the process, transforming our technology stacks.

WHAT ARE THE BENEFITS?

Replatforming will enable us to evolve our customer offer with much greater speed and reliability for our existing retail businesses and for those of our existing and future partners, as well as facilitate international expansion through faster replication, improved business agility and scalability and reduced maintenance overheads.

TIMELINES

The replatforming project commenced in 2014, with the first phase due to be completed during 2015. The project is a continuous process where discrete elements can be utilised as they are completed, with the entire replatformed systems being introduced over the time of the project.

KEY ELEMENTS TO REPLATFORMING

- Modularising our software and services to:
 - Allow parallel development, deployment and faster experimentation
 - Reduce maintenance costs
 - Facilitate integration with third party products/services
 - Facilitate internationalisation
- Transforming the technology stacks to deliver:
 - Improved developer productivity through access to the latest development tools
 - Improved reliability
 - Faster rollout of new software
- Migrating systems to the cloud to:
 - Reduce costs and timescales for international deployments
 - Deliver better integration with partners
 - Deliver access to third party cloud-based SaaS products
 - Reduce/remove the need to build more data centres.



View more information about Ocado Smart Platform on pages 28 & 29



View more information online at www.ocadogroup.com

UTILISING PROPRIETARY KNOWLEDGE

"The commercialisation of our IP and knowledge platform has already started with our 25 year agreement with Morrisons."

"With our platform, international partners can make full use of their localised expertise in branding, customer relationships and sourcing."

OUR KNOWLEDGE AND INTELLECTUAL PROPERTY

In building our retail business we have over many years been focused on developing optimal solutions solely for online retail operations, specifically centred on the grocery industry.

The learnings we have, together with the solutions we have developed from our intellectual property, cover the end-to-end process of the "retail mission", moving a product from a supplier into a customer's home. We develop proprietary processes, systems and software to improve efficiency and operations, and to provide market leading user interfaces and applications for our customers.

Our software and other technology solutions are developed in-house by a development team of currently over 550 people. Our in-house team enables rapid development and implementation of new solutions for our business, and facilitates regular updates without the need to involve expensive change processes from multiple software providers.

As we have become more vertically integrated in the design and engineering of physical equipment componentry and solutions, we recognise the value of adding more protection for some of our developments through the use of patents. During the year, we filed for multiple patents covering several of our current or potential developments.

WORLD LEADING INFRASTRUCTURE SOLUTIONS

Our knowledge extends beyond software development, with many years of extensive experience of physical mechanical handling infrastructure equipment solutions. Our focus has been to drive efficiency from both a capital expenditure and operating cost perspective, and we have built and now operate the world's two largest and most efficient single pick facilities.

Our next generation fulfilment centres will use our latest hardware assets, which are entirely proprietary – we own the design, the operating systems and control the manufacturing process. This fulfilment asset solution has many important attributes, making it even more efficient and resilient than our existing CFCs. It is modular (can be built almost any size), scalable (can be built in multiple phases) and faster to deploy (with shorter build and commissioning lead times). In addition, compared to our existing CFCs, we expect it will achieve higher operational efficiency, to be more capital efficient, to require less cubic space and yet still hold a large range of products.

Our solution combines extremely dense storage, rapid retrieval and fast picking of single items. This system incorporates a number of technological advances including a highly sophisticated proprietary communications technology capable of interacting inside a building with thousands of devices, multiple times a second, significantly in excess of any technology currently available commercially.

Our infrastructure knowledge and solutions, combined with our end-to-end technology systems, provides an entire platform for operating online retail businesses, capable of handling the complexities and requirements of grocery retailing as well as general merchandise categories.

LEVERAGING VALUE FROM OUR PLATFORM – MORRISONS.COM

The exploitation of our IP and knowledge platform has continued through our 25 year agreement with Morrisons to launch and operate their online business. Morrisons.com was launched on 10 January 2014 operating from Dordon CFC (on a shared basis with our own business), and utilising our technology platform from the user interface through to optimising the delivery and routing schedules to the customer.

This long-term agreement includes a series of fees, royalties and cost sharing arrangements paid to Ocado. The attraction for Morrisons was the speed with which the service could be launched, the scalability of their operation and



market leading quality of the proposition Morrisons.com could offer to their customers, supported by our platform.

INTERNATIONAL EXPANSION

Online shopping is not restricted to the UK. Growth in online grocery shopping has been slower in many countries than in the UK, largely, we believe, due to the low quality of the proposition offered to the customer in terms of service, range and price.

Nevertheless, incumbent bricks and mortar retailers are increasingly focused on the impact online shopping is having and potentially could have in the future. The fundamental challenge that faces grocery retailers in the UK also faces grocery retailers across the globe — how to offer online services in a profitable, sustainable way. The capabilities our platform provides in offering a compelling proposition to customers, with the efficiency to build a scalable profitable online business, should be attractive to support significant growth in online grocery shopping in multiple markets.

With our platform, international partners can make full use of their localised expertise in branding, customer relationships and sourcing.

We believe there are significant opportunities to leverage our platform with international partners to operate in their local markets.

PREPARING THE WAY FOR FUTURE AGREEMENTS

We have set out three critical areas of focus to facilitate future agreements:

- operating our first long-term contract to the continued satisfaction of our partner, Morrisons;
- the replatforming of our IT systems to enable faster replication, roll-out and lower maintenance costs in the future; and
- to first use our new proprietary infrastructure solution in our own facility prior to any live operation for a new partner.

Morrisons.com has continued to grow. As part of their interim results presentation in September 2014 Morrisons confirmed their “target of annualised year-end sales of £200 million”, a significant ramp up for a new business stream, and operating with industry leading service KPIs (joint with Ocado.com).

Our IT systems replatforming programme is continuing according to plan. This exercise involves a redesign of our existing software which will allow us to move to a new IT architecture, placing software into the cloud, and create smaller code bases to allow faster and simultaneous future development. These changes are to enable faster development for future partners’ online businesses, and significantly lower ongoing maintenance costs.

We have announced our plans for our next CFC, the first using our new fulfilment solution which, with a significant period built in for testing, is due to be operational at the end of 2015. We expect to be able to go live for a new partner after this date.

In the meantime, we continue to develop our relationships with grocery retailers from across the world. There is significant interest in the development of online, and particularly mobile grocery shopping, and how that might impact on incumbent operators and their ability to compete. We believe this is encouraging for the future prospects of delivering more future long-term customer relationships for the Group.

 View more information about maximising efficiency on pages 22 & 23





OUR SYSTEMS,
PROCESSES AND
HARDWARE HAVE
EVOLVED OVER MANY
ITERATIONS IN A
LIVE RETAIL
ENVIRONMENT



OCADO SMART PLATFORM EXPLAINED

BACKGROUND – WHAT IS IT?

Our platform offer, Ocado Smart Platform, is our proprietary solution for operating online retail businesses. It comprises our end-to end software and technology systems together with our physical fulfilment asset solution, both of which are proprietary.

WHAT IS AN END-TO-END TECHNOLOGY SOLUTION?...

The technology solution enables partners to operate the entire shopping process for their customers using integrated software systems. These include the interfaces with their customers (website, apps), management systems for supply and inventory, management and control systems for the fulfilment centres, and software to optimise delivery routes and to operate contact centres. These systems have been developed in-house over many years for the sole purpose of running and optimising the efficiency of online retail businesses.

...AND WHAT IS SPECIAL ABOUT OUR FULFILMENT ASSET SOLUTION?

We have spent our first 12 years of business life utilising equipment purchased from mechanical handling equipment providers, and over time have increasingly asked for or developed more enhancements to improve throughput and efficiency. We believe this experience now allows us to make significant further improvements. We have set about designing our own assets and using our knowledge base to develop proprietary physical asset solutions. Our fulfilment asset solution is modular (can be built almost any size) and scaleable (can be built in multiple phases). It requires less space than the assets we currently use, but is very range friendly. It is fast to deploy and even more efficient in terms of both capital and operating costs.

The first instance of our new fulfilment asset solution will be installed in our next CFC, which we are currently building in Andover. We plan to start operating from this CFC by the end of 2015.

WHAT IS THE BUSINESS MODEL FOR OCADO SMART PLATFORM?

We plan to sell the entire platform as a fully integrated service, not just physical assets and some technology. In return for a fee structure based on committed capacity, we would provide a partner with the benefits from physical assets sufficient to fulfil a targeted level of sales, together with all of the software systems required to launch and operate their entire online business.

WHY COULD OCADO SMART PLATFORM BE INTERESTING TO INTERNATIONAL PARTNERS?

We believe Ocado Smart Platform offers partners a low risk, fast to market approach for launching or relaunching their online business, with limited capital commitment. Ocado Smart Platform allows a partner to scale their business as sales grow, with attractive economics and the capability to provide a superior customer proposition.

Each element of what comprises Ocado Smart Platform has been developed and is used, or intended to be used, in our own retail operations. Unlike third party providers of products, services and software, we are a primary retailer, and our systems, processes and hardware have evolved over many iterations in a live retail environment.

While primarily designed to cope with the additional rigours and challenges presented in operating grocery businesses online, Ocado Smart Platform can equally be applied to general merchandise product areas.

IS ANYONE USING OCADO SMART PLATFORM TODAY?

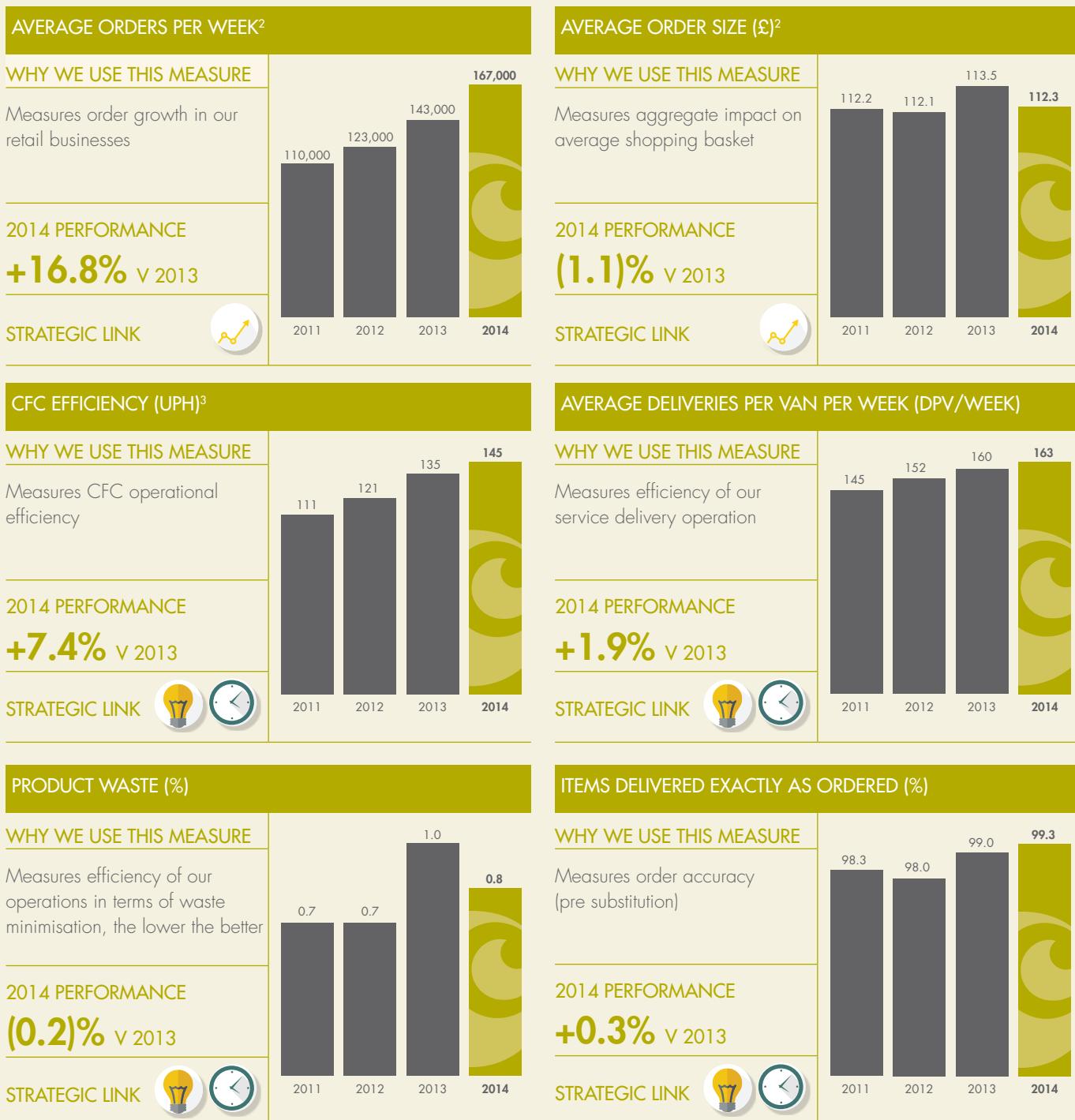
While not signed under the Ocado Smart Platform banner, Morrisons became the first customer of our broader platform, utilising our technology solution and existing infrastructure facilities to launch and operate Morrisons.com. Morrisons.com was launched in very quick time (seven months from signing unconditional agreements) with attractive cost economics and best in class service metrics (alongside Ocado.com).

TIME FRAME FOR OCADO SMART PLATFORM DEALS?

We have set out important work streams for preparing our platform for Ocado Smart Platform deals internationally. Our intention is to position our capabilities to sign multiple deals in future years. In order to facilitate rapid replication and multiple instances of our software in the future we are replatforming our IT systems, a process that will continue into 2015. We also intend to operate our new infrastructure asset solution in Ocado.com before using it in a partner's live operation. The earliest date that we could launch live operations for a partner would be in 2016, with an agreement signed at least a year prior to the live operation.

OUR KEY PERFORMANCE INDICATORS

We measure the achievements of our strategic objectives through the use of qualitative assessments and monitoring the performance of quantitative key performance indicators ("KPIs"). Each KPI links to one or more of our strategic objectives set out on page 18 (using the strategic link icons shown).



1. 2012 figures are on 52 week basis.

2. Refers to Ocado.com orders and includes standalone orders for Fetch.co.uk and Sizzle.co.uk

3. Mature CFC operations (CFC is considered mature if it had been open 12 months by the start of the reporting period).

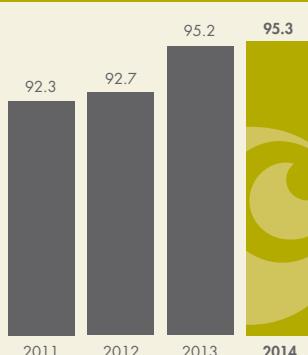
4. 2014 supermarket SKU count is a snapshot taken from the Ocado website on 09/12/2014.



DELIVERIES ON TIME OR EARLY (%)

WHY WE USE THIS MEASURE

Measures timeliness of our delivery operations



2014 PERFORMANCE

+0.1% v 2013

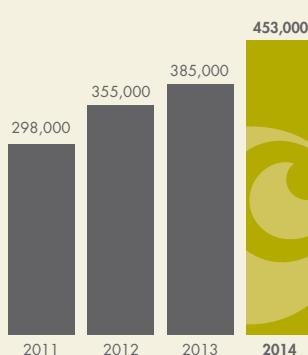
STRATEGIC LINK



ACTIVE CUSTOMER BASE

WHY WE USE THIS MEASURE

Measures growth in our core customers, counted as customers who shopped in the last 12 weeks



2014 PERFORMANCE

+17.7% v 2013

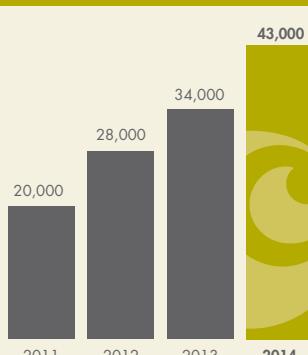
STRATEGIC LINK



SKU COUNT (HYPERMARKET)⁴

WHY WE USE THIS MEASURE

Measures growth in range offered at Ocado.com, not including standalone sites



2014 PERFORMANCE

+26.5% v 2013

STRATEGIC LINK



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, to protect the interests of our key stakeholders, to enhance the quality of our decision making, and to 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, PricewaterhouseCoopers ("PwC"), 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 by the Board;
- a Risk Committee which monitors Ocado's risk control processes;
- an Information Security Committee which monitors Ocado's information security;

- 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, whose members are senior executives, reports to the Audit Committee. The Risk Committee oversees risk control processes and risk analysis from each part of the business, 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 mitigation 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.

WHAT WE ADDRESSED IN 2014

The process described on page 32 for identifying, evaluating and managing the principal risks faced by the Group operated during the period and up to the date of this Annual Report. Such a system can only provide reasonable, and not absolute, assurance, as it is designed to manage rather than eliminate the risk of failure to achieve business objectives.

Following a review by KPMG LLP of the effectiveness of the Group's governance framework against market practice for listed companies, management is in the process of implementing the key recommendations. These included enhancing our risk management capability through establishing an Internal Audit & Risk function in July 2014 and consolidating in a common area and format the existing and revised key policies and procedures.

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 material controls including financial, operational, compliance controls, and risk management systems.

For further information on the review of financial reporting refer to page 75 of the Audit Committee report. For a description of the Company's externally facilitated control and governance review see page 78 of the Audit Committee report.

WHAT WE WILL BE LOOKING AT IN 2015

Activities to improve our strategic, programme and operational risk management capabilities, including business continuity and information security, will continue in 2015. Our trading strategy is reviewed and amended as necessary to reflect the increasingly competitive grocery trading environment.

2015 will also see us begin to integrate our environmental, social and governance (ESG) risks across the business. Our long-term aim is for integrated reporting, and we see the greater integration of ESG risks throughout the business, along with transparent stakeholder dialogue, as key drivers of this.

The new Internal Audit & Risk function will provide independent and objective assurance and advisory services designed to add value and improve the operations of the business. Its scope will encompass, but not be limited to, the examination and evaluation of the adequacy and effectiveness of Ocado's governance, risk management and internal control processes.



HOW WE MANAGE OUR RISKS

continued

RISKS

We have identified 12 principal risks and uncertainties facing Ocado. These are considered by the Board to be material to the development, performance, position or future prospects of Ocado. These risks, mitigations and changes during the year are summarised in the table below. They are not set out in priority order.

Objective	Risks	Mitigation Action/Control	Change During The Year
 DRIVING GROWTH	Failure to maintain competitive pricing position	<ul style="list-style-type: none"> Continuation of our LPP basket matching price comparison Maintaining a competitive number of promotional offers and increased availability of free delivery slots for price sensitive customers Creation of a choice of tiered price points within each category 	 Due to increased competition in the market
	A 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 Installation of additional capacity to reduce the pressure on the business and resiliency work in CFC1 	 Successful increase in operations of CFC2 means that both CFCs are operating with sufficient capacity headroom
	Failure to maintain a compelling product range	<ul style="list-style-type: none"> 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 planned in the event that the Waitrose sourcing relationship terminates 	 Range and supply base have increased during the year
	Failure to continue to recruit increasing numbers of new customers and retain existing customers	<ul style="list-style-type: none"> Continuation of investment and optimisation of the marketing channels to acquire new customers 	 Active customers grew and retention rates improved during the year
 MAXIMISING EFFICIENCY	A risk of delays in the implementation of new capacity for both Ocado and Morrisons	<ul style="list-style-type: none"> Dedication of resources to the modularisation of technology and logistics systems to enable faster replication Preparation of plans for new capacity at CFC3 and CFC4 	 Future new capacity is reliant on new, unproven, technology
 UTILISING KNOWLEDGE	Failure to develop a competitive model for further commercialisation	<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 	 Significant progress in developing the commercial offer but higher risks remain until first OSP deal is signed

Objective	Risks	Mitigation Action/Control	Change During The Year
 MONETISING PROPRIETARY KNOWLEDGE	Failure to protect current technology and process and failure to ensure that our technology can be freely operated without infringing a third party's IP	<ul style="list-style-type: none"> Processes are operating to identify patentable inventions and to apply for patents Conducting extensive "freedom to operate" searches on selected technologies 	 Multiple patents now filed but the value of IP has increased so increasing the value to others
OPERATIONAL	A risk of a food or product safety incident	<ul style="list-style-type: none"> Experienced legal, food technology and health and safety professionals monitor compliance against policies and procedures Supplier approval and certification process Health and safety policies with appropriate operational procedures 	 Supplier and product numbers have increased and the market has become more sensitive to product issues
	A risk of changes in regulations impacting our business operations	<ul style="list-style-type: none"> Regular monitoring of regulatory developments to ensure that changes are identified Monitoring operational performance to minimise environmental impact 	
	Failure of technology or data loss	<ul style="list-style-type: none"> IT systems are structured to operate reliably and securely Denial of service protection service is in place The security of our IT systems is regularly tested by third parties No customer payment card data is held on Ocado's databases Access to customer personal data is restricted to those who need this information as part of their job 	
	Business interruption	<ul style="list-style-type: none"> Dedicated engineering teams on site with daily maintenance programmes to support the continued operation of equipment Insurers advise on engineering and risk management in the design and operation of the CFCs High level of protection for CFCs and equipment 	 Opening of more spokes reduces reliance on any one particular spoke
	A risk of unintentional infringement of competition legislation	<ul style="list-style-type: none"> Issued a revised competition compliance policy in 2014 Conducted training of key personnel and deployed an e-learning tool for all personnel in every department having access to trading data Physical and technical firewalls installed to separate those teams who need to deal with sensitive Morrisons' data, in order to provide the services to Morrisons, from those running the Ocado offer 	

The risk that future efficiency improvements may be limited, previously reported in last year's annual report, is no longer considered to be a principal risk because Ocado has reached a level of efficiency sufficient to ensure the viability of the business.

For further information on the financial risks see page 172 of the notes to the financial statements.

CHIEF EXECUTIVE OFFICER'S REVIEW

Tim Steiner
Chief Executive Officer



"We have continued to make progress in each of our strategic objectives of driving growth, maximising our efficiency, and utilising our knowledge."



View more information about our strategy on pages 18 & 19



View more information online at www.ocadogroup.com



To hear more from Tim Steiner visit www.ocadogroup.com



Scan the QR code with your smart device to watch Tim Steiner online

Over the last 12 months we have seen continued pressure in the grocery market with supermarket store volumes declining and ongoing competitive pricing activity. At the same time, the number of customers choosing to shop for their groceries online has grown as the channel shift to online progresses. Against this backdrop, we have continued to make progress in each of our strategic objectives of driving growth, maximising our efficiency, and utilising our knowledge. In particular, we delivered sales growth ahead of the broader online grocery market, successfully launched our first platform customer, Morrisons.com, and made significant progress in our plans for the next generation CFC assets.

STRATEGIC OBJECTIVES SUPPORTED BY OUR ACTIONS

Our strategic objectives apply to both our own retail business and our current and potential platform operations. We support our objectives through a framework of actions intended to deliver long term shareholder value.

The key actions within our framework are to:

- Constantly improve our proposition to customers;
- Strengthen our consumer brands;

- Develop ever more capital and operationally efficient infrastructure solutions;
- Enhance our end-to-end technology systems; and
- Enable Morrisons' and future partners' online businesses.

CONSTANTLY IMPROVE THE PROPOSITION TO CUSTOMERS

Central to driving the growth of our retail business are our efforts to constantly improve the proposition we offer to customers – our high quality service, the broad selection of products available, and consumers' confidence in our prices. We have continued to make progress in improving each of these key aspects.

Voted the Best Online Grocer 2014 by Which? Magazine in its members' Annual Satisfaction Survey for the fifth successive year, we have continued to win awards for our service and the food that we sell. We believe this reflects our ongoing progress and the strengthening recognition of our brand.

We recognise the importance of the shopping experience, and believe that increasingly consumers will try online for their grocery shop if they consider it more attractive than current store based shopping. We have continued to focus

on improving elements and features of the customer interface to enhance the speed, convenience and usability of our service. Features such as Import Your Favourites, shortened registration processes and the introduction of payment by PayPal are proving to be particularly useful in encouraging customers to shop for the first time and on subsequent occasions, with customer retention rates from first to fifth shop modestly improving over the period. This is important in building a base of frequent, loyal customers.

Smart Pass, our bundled customer benefit membership scheme, continued to be popular, further driving customer loyalty, shopping frequency and total spend per customer. Customers shopping using mobile devices have remained strong. For the period, over 48% of all orders delivered were checked out over a mobile device, with mobile apps accounting for over 37% of all checkouts. In January 2015 we launched our new mobile website to complement our mobile apps, which we anticipate may be particularly attractive to new customers.

A high quality and reliable delivery service is critical to our customers. We believe our customer delivery service continues to be market leading in order accuracy and on time performance. Orders delivered on time or early improved to 95.3% (2013: 95.2%) and order accuracy also improved to 99.3% (2013: 99.0%) during the period.

Our range at Ocado.com is now over 43,000 products including everyday items, our own brand, more non-food and additional specialist ranges. These include new ranges such as a Malaysian food selection and extensions to our Kosher and Halal shops.

Our non-food sales and range continued to grow during the period, with sales growing over 50% and by the end of the period more than a third of baskets contained at least one non-food item, reflecting the

increased popularity of shopping from a broader general merchandise product range while customers make their regular grocery shop.

In 2H 2014 we launched our second destination site, Sizzle. This is a specialist kitchen and dining shop and complements Fetch, our pet store. Fetch now has over 8,000 SKUs, and Sizzle over 12,000 SKUs, both complementing our Ocado.com range.

One of our subsidiary companies, Speciality Stores Ltd, has entered into an agreement with Marie Claire UK to launch a new business in the beauty and wellbeing segment. This business will be a separately incorporated company and will operate using the Marie Claire brand. It will be based in the Marie Claire office in central London and be led by Amanda Scott, currently Head of Buying for Beauty and Accessories at John Lewis. Start-up costs are estimated at between £2 – £3 million in 2015. We believe that the high quality of service delivered by our technology and logistics platform combined with the awareness and relevance of the Marie Claire brand will make this an attractive shopping destination for customers.

Amidst the current price competitive market environment, our Low Price Promise basket matching scheme continues to resonate well with our customers, reflecting the competitiveness of our prices and adding transparency to our pricing strategy. By the end of the period, when checking for LPP, over three quarters of our customers' baskets were already cheaper at Ocado. The cost of LPP in the form of vouchers used during the period was lower than the same period last year, despite the increased price reductions in the market, reflecting our competitiveness in prices and sustained promotional activity.

OCADO



FETCH



SIZZLE



CHIEF EXECUTIVE OFFICER'S REVIEW continued

"Our capabilities are being significantly enhanced and broadened with the ongoing development of our new modular, scalable physical fulfilment solution."

"Maintaining and enhancing technology leadership in systems, processes and equipment supports our market-leading proposition to customers and drives operating excellence."

STRENGTHEN CONSUMER BRANDS

We have continued to develop the awareness and strength of Ocado's stable of brands, and reinforce their values.

We have concentrated our modest above the line marketing spend on initiatives to build broader brand awareness, focused around food, such as the sponsorship of Channel 4's Daily Brunch, supporting the launch of 'Britain's Next Top Supplier' competition, an Ocado initiative to support and nurture small British suppliers, and supplying food to the BBC Good Food Shows at Olympia and the NEC. Overall marketing costs, including voucher spend, has fallen as a percentage of sales, reflecting a fall in retention chqueing and a similar growth rate of new customer acquisitions.

The Ocado own-label reinforces brand recognition and continues to grow in popularity with sales up over 40% against the equivalent period last year, and the average basket now containing almost five Ocado own-label products.

The growth in our customer numbers reflects the strengthening position of our brand. Our active customers at the end of the period stood at 453,000 (2013: 385,000).

Our customers' average baskets stood at £112.25 (2013: £113.53) by the period end, including the impact of standalone destination site orders from Fetch and Sizzle.

Fetch has grown strongly in its first year, gaining in brand awareness despite limited marketing support during the period. Increasingly customers recognise the convenience of buying their pet requirements online and having them delivered together with their Ocado grocery shop, rather than requiring a visit to the pet shop or veterinary clinic. We anticipate customer awareness of the Sizzle brand will build as shoppers discover the benefits and range available to them in this category.

DEVELOP EVER MORE CAPITAL AND OPERATIONALLY EFFICIENT INFRASTRUCTURE SOLUTIONS

Our capabilities are being significantly enhanced and broadened with the ongoing development of our new modular, scalable physical fulfilment solution. This system has benefited from our extensive design and engineering experience which has enabled us to develop a proprietary solution with many beneficial attributes when compared to existing infrastructure assets or any commercially available alternatives. Successful development of this infrastructure solution will vertically integrate our platform of software, electronic and mechanical systems required to operate online retail operations efficiently, enabling a compelling proposition to the consumer and our partners.

Our solution combines extremely dense storage, rapid retrieval and fast picking of single items. We believe it is the most capital efficient solution available that is capable of fulfilling this purpose, and should significantly exceed the operating efficiency we have achieved in our existing CFCs.

The new product storage and retrieval system incorporates a number of technological advances including a highly sophisticated proprietary communications technology capable of interacting inside a building with thousands of devices multiple times per second, significantly in excess of any technology currently available commercially.

The constituent elements of this infrastructure solution are currently undergoing significant testing and we are confident in their key performance capabilities. We have filed for patents across our innovations, driven by the desire to protect the IP intrinsic to our infrastructure solution. As more patents are filed we are building a web of protection for our valuable IP in the future.

 View more information about maximising efficiency on pages 22 & 23

 View more information online at www.ocadogroup.com

Both our Hatfield Customer Fulfilment Centre ("CFC1") and our Dordon Customer Fulfilment Centre ("CFC2") continued to operate to a high level of accuracy and with improved efficiency. Using the units per hour efficiency measure ("UPH"), the average productivity for the period in our mature CFC operations was 145 UPH (2013: CFC1 135 UPH), where we consider a CFC to be mature if it had been open for 12 months by the start of the half year reporting period. By the end of the period, operational efficiency in CFC2 was over 150 UPH.

Ocado order volumes have grown to an average of over 167,000 orders per week ("OPW") (2013: 143,000 OPW) with the highest number of orders delivered in a week exceeding 196,000 during the period. At the end of the period, approximately 60% of orders were fulfilled from CFC1 with the balance from CFC2, in line with our expectations.

We continue to introduce new developments to our CFCs to improve efficiency further in a cost effective manner. Three additional purpose designed and patent pending bagging machines commenced operations in CFC1 during the course of 2H 2014, and we expect to invest in further bagging machines in both CFC1 and CFC2 in future years.

The major phase 2 development works for CFC2 are now complete, and we believe this has increased capacity to approximately 180,000 OPW.

During the year we announced our plans for CFC3 in an existing building in Andover, Hampshire, where works commenced in 2H 2014. We plan to open the site at the end of 2015, following significant building redevelopment and extension work and extensive testing of our new more modular and scalable fulfilment solution. CFC3 will add 65,000 OPW capacity to our operation at a capital cost of £45 million for the MHE.

We have also exchanged contracts for a 30 year lease for a new build site in Erith in southeast London for CFC4, subject to planning consent. The developer is expected to commence work on the site in the first half of 2015, with our works starting in 2016 and with a plan to commence operations during 2017. The MHE solution in CFC4 will ultimately cost £135 million and will add over 200,000 OPW. As with CFC3, this CFC will use our proprietary modular, scalable fulfilment solution and so the investment will be phased over a number of years in line with our capacity requirements. It will also make this the most capital efficient CFC to be built to date.

There will be a further £50 million of building work on items such as fridge plants, mezzanine floors and additional dock doors to take the developer's shell up to the level of building required. Ocado has an option from the developer exercisable by April 2015, to use the site also for Morrisons.com on improved rental terms. In this event, the ramp up of capacity will be completed sooner, and the costs and capacity of the CFC will be shared with Morrisons.

Despite worsening road traffic speeds, our delivery performance continued to improve, benefiting from increased customer density, with deliveries per van per week ("DPV") of 163 (2013: 160 DPV).

We have expanded our delivery capacity with the opening in the period of additional spokes in Ruislip, Enfield, Sheffield and Knowsley, and with a further spoke in Dagenham opening post the period end. Another spoke in Park Royal is set to open in February 2015 to replace our smaller White City location. The delivery capacity for some of these spokes is shared with Morrisons, resulting in improved cost and capital efficiencies during the ramp up phase.



CHIEF EXECUTIVE OFFICER'S REVIEW continued

"Our leadership in IP and technology affords us opportunities to generate significant value for Ocado through the commercialisation of our IP."

"Our customers regularly comment on the outstanding service provided by our delivery team of Customer Service Team Members."

We anticipate that capital expenditure in 2015 will be approximately £150 million, including the expenditure for CFC3 and increased costs for further development for our infrastructure and technology solutions.

ENHANCE OUR END-TO-END TECHNOLOGY SYSTEMS

Since inception we have utilised proprietary IP, knowledge and technology as the foundation of our business. Maintaining and enhancing technology leadership in systems, processes and equipment supports our market-leading proposition to customers and drives operating excellence.

Over time we have developed a proprietary end-to-end solution for operating grocery online, from the point of contact with the customer, through the extensive fulfilment operations, to the delivery of the basket of products to the customer's kitchen. Each stage of the operation is optimised using our software and algorithms. Our technology systems form a key part of this solution.

We are progressing with the replatforming of our IT systems, investing significantly in the use of cloud-based infrastructure, to enable faster replication and roll out of our technology internationally, and remain on track with our plans.

We continue to expand our technology team, and at the end of 2014 employed over 550 developers and IT professionals. We plan to increase this team to 700 people during 2015. Our technology team's primary focus is on improving customer interfaces to support our businesses and those of our partners, replatforming to improve speed of systems development and to enable international expansion, and other projects to drive efficiency in our operations.

ENABLE MORRISONS' AND FUTURE PARTNERS' ONLINE BUSINESSES

Our leadership in IP and technology affords us opportunities to generate significant value for Ocado through the commercialisation of our IP.

The first commercialisation of this IP was our agreement with Morrisons which was completed in July 2013 and we were pleased that Morrisons.com was launched as planned with the first orders delivered on 10 January 2014. Morrisons.com uses our existing CFC technology and solutions and has continued to ramp up well in line with our and Morrisons' expectations.

We continue to receive interest from a broad group of potential international partners to discuss how we might assist them in introducing or improving online business in their own markets. We have now combined our end-to-end technology platform with our modular infrastructure solution to form "Ocado Smart Platform" as a single service offering. We will make this available to potential partners to power their online grocery retail businesses.

During the period, we started to engage in more detailed discussions with several parties with a view to utilising Ocado Smart Platform to drive the launch or growth of their online businesses. We expect to incur up to £5 million in 2015 in additional administrative costs to enable us to develop the Ocado Smart Platform capability further and negotiate platform service agreements. We are targeting to sign the first such agreement during 2015 although there is no guarantee we can meet this timeline.

MARKET BACKDROP

Despite the more positive outlook for broader economic growth in the UK, we believe the grocery market remains subdued.

Moreover, during the period there has been more emphasis placed on price initiatives in the market by the major supermarket groups, particularly to counter the growing threat from discount operators which is exacerbating the decline in supermarket store sales. We have seen prices of certain key value items, primarily in fresh private label categories, impacted by these initiatives, and we will continue to assess price developments in the market carefully.

 View more information about Ocado Smart Platforms on pages 28 & 29

 View more information online at www.ocadogroup.com

Notwithstanding this broader market activity, online grocery shopping continues to expand faster than the total market, although more recently some of our competitors' growth appears to have slowed, evidenced by the online growth figures reported across the industry. All the major UK supermarket groups continue to invest to satisfy this growing online demand with a general acceptance that online continues to become a more mainstream channel for grocery shopping.

Overseas there continues to be more interest and investment in online services in many markets as major incumbent grocery retailers seek to address this channel shift, and by online retailers such as Amazon Fresh helping to drive both consumer interest, and corporate focus, in online grocery shopping.

PEOPLE, RECOGNITION AND AWARDS

By the end of the period, we employed over 8,500 people, having created over 1,800 jobs during the year, supporting the growth of our Ocado retail businesses, our Morrisons platform business and the development of Ocado Smart Platform. We anticipate this number rising by around 2,500 people during 2015.

The energy and commitment of our people remains central to our success and I want to acknowledge their tremendous efforts throughout this very busy period. Our customers regularly comment on the outstanding service provided by our Customer Service Team Members.

We are delighted that the efforts of our people were recognised with a number of awards during 2014, including the Best Online Grocer by Which? Magazine (Members' Annual Satisfaction Survey), Best Online Retailer (Gold) and Supermarket of the Year (Silver) in the Loved by Parents Awards, and Best Organic Supermarket in the Soil Association Organic Awards. We also received recognition of our extensive offering in our 'free from' range with Best Large Online Supermarket 2014.

We also won a number of awards for our Ocado own-label products. These included the Loved by Parents Best Grocery Product for our Ocado own-label organic juicing boxes, fruit boxes and vegetable and salad boxes, as well as for a range of our fresh fish by Quality Food Awards.

In September, to coincide with the new academic year, we launched 'Code for Life', an Ocado Technology CR initiative to encourage and support primary school teachers to deliver the new Computer Science curriculum. The initiative has been supported by BCS Academy of Computing, Computing at School, the teaching community and education specialists, and has already had several hundred schools sign up. We are thrilled with how this has been received and look forward to supporting this important initiative in the future.

We received recognition of our continuing efforts in CR winning the PRCA Award for CSR Campaign of the Year 2014 with our "Britain's Next Top Supplier" initiative.

BOARD UPDATE

Jason Gissing, a co-founder of Ocado, took the decision to retire from the Board at our annual general meeting on 10 May 2014. I would like to thank Jason for his valuable contribution over many years, and wish him well for the future.



CHIEF FINANCIAL OFFICER'S REVIEW

Duncan Tatton-Brown
Chief Financial Officer



"Operating profitability continued to strengthen in the period from better operational efficiency and the benefits of the Morrisons agreement."

For the period to 30 November 2014 Ocado delivered robust growth driven by an increase in the number of new customer acquisitions, improvements to the proposition to customers and an increase in the frequency of shops from existing customers. This was complemented by additional revenues from our first platform arrangement with Morrisons.

Operating profitability continued to strengthen in the period from better operational efficiency and the benefits of the Morrisons agreement. This was offset by the annualised impact from the depreciation and amortisation arising from CFC2 and additional costs from strategic initiatives to support future growth in the business.

	FY 2014 £m	FY 2013 £m	Variance
Revenue ¹	948.9	792.1	19.8%
Gross profit	312.9	247.5	26.4%
EBITDA ²	71.6	45.8	56.3%
Operating profit before share of result from JV and exceptional items	14.2	1.0	
Share of result from JV	2.4	0.9	
Profit/(loss)before tax before exceptional items	7.5	(5.1)	247.1%
Exceptional items ³	(0.3)	(7.4)	(95.9)%
Profit/(loss)before tax	7.2	(12.5)	157.6%

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 are also included in Revenue

2. Excluding exceptional items and share based management incentive payments EBITDA was £76.6 million (2013: £48.3 million)

3. FY 2013 exceptional items include exceptional finance costs

REVENUE

	FY 2014 £m	FY 2013 £m	Variance
Retail	903.8	784.2	15.3%
Morrisons recharges ¹	27.8	2.4	1058.3%
Morrisons fees ²	17.3	5.5	214.5%
Total revenue	948.9	792.1	19.8%

1. Morrisons recharge income is derived from the charging of distribution costs and administrative expenses

2. Morrisons fees related to annual licence fees, technology support, research and development and management fees

GROSS PROFIT

	FY 2014 £m	FY 2013 £m	Variance
Retail	267.8	239.6	11.8%
Morrison recharges ¹	27.8	2.4	1058.3%
Morrisons fees ²	17.3	5.5	214.5%
Total gross profit	312.9	247.5	26.4%

1. Morrisons recharge income is derived from the charging of distribution costs and administrative expenses
 2. Morrisons fees related to annual licence fees, technology support, research and development and management fees

Revenue increased by 19.8% to £948.9 million for the period. Revenue from retail related activities was £903.8 million, an increase of 15.3%, which we believe to be ahead of the online grocery market. Revenue growth was driven by an increase in average orders per week to 167,000, up from 143,000 in 2013, offset by a modest reduction in average order size, down from £113.53 in 2013 to £112.25 in 2014.

We continued to expand our non-food offering in the period and revenue from it increased by 51.9% year-on-year.

The Morrisons agreement contributed £45.1 million of revenue in 2014 (2013: £7.9 million). This comprised annual licence fees for services, technology support, research and development, management fees and a recharge of relevant operational variable and fixed costs.

Gross profit rose by 26.4% year-on-year to £312.9 million (2013: £247.5 million). Gross margin was 33.0% of revenue (2013: 31.2%), ahead of 2013 due to additional gross profit attributable to the Morrisons arrangement in the period.

Retail gross margin reduced by (1.0)% to 29.6% (2013: 30.6%) as a result of increased price competition, but offset by lower average product wastage. Average product wastage reduced to 0.8% of retail revenue (2013: 1.0%) mainly caused by improvements at CFC2 as volumes increased. Gross profit from our arrangement with Morrisons was £45.1 million, an increase from £7.9 million in 2013, driven by the growth in the Morrisons.com business and the full year effect from the Morrisons fees.

Other income increased to £39.4 million, a 70.6% increase on 2013 (2013: £23.1 million). Media income of £25.5 million was 2.8% of retail revenue (2013: 2.4%). Income from website related activities continued to grow ahead of the rate of increase in revenue because of increased demand from our suppliers, the benefits of scale and a wider product range. Other income also included £8.9 million (2013: £3.0 million) of income arising from the leasing arrangements with Morrisons for MHE assets and £2.5 million (2013: £0.9 million) of rental income relating to the lease of CFC2. This income, for the MHE

assets, is generated from charging MHE lease costs to Morrisons and equates to the additional depreciation and lease interest costs that we incur for the share of the MHE assets effectively owned by Morrisons. Other income also included a payment of £1.2 million for the surrender of the lease at our existing White City spoke whose operations are being transferred to a new build site nearby at Park Royal.

OPERATING PROFIT

Operating profit before the share of the result from the joint venture and exceptional items for the period was £14.2 million, compared with £1.0 million in 2013.

Distribution costs and administrative expenses included costs for both the Ocado and Morrisons picking and delivery operations. The costs relating to the Morrisons operations are recharged and included in revenue. Total distribution costs and administrative expenses including costs recharged to Morrisons grew by 25.4% year-on-year. Excluding Morrisons, costs grew by 16.1%, in line with the growth in the retail average orders per week.

	FY 2014 £m	FY 2013 £m	Variance
Distribution costs ¹	193.2	168.6	14.6%
Administrative expenses ¹	62.1	54.7	13.5%
Costs recharged to Morrisons ²	27.8	2.4	1058.3%
Depreciation and amortisation ³	55.0	43.9	25.3%
Total distribution costs and administrative expense	338.1	269.6	25.4%

1. Excluding chargeable Morrisons costs, depreciation, amortisation and impairment charges
 2. Morrisons costs include both distribution and administrative costs
 3. Included within depreciation and amortisation is a £2.6 million impairment charge in the period

CHIEF FINANCIAL OFFICER'S REVIEW continued

"The improvement in mature CFC UPH was driven mainly by CFC2 productivity which now exceeds CFC1."

"In July 2014, Ocado announced plans for our next CFC located in Andover, in the south of England."



View more information about maximising efficiency on pages 22 & 23



View more information online at www.ocadogroup.com

At £193.2 million, distribution costs increased by 14.6% compared to 2013, lower than the growth in retail sales of 15.3%. Operational efficiency improved at both CFC1 and CFC2. Overall mature CFC UPH in the second half was 147 in 2014 (for CFC1 and CFC2 combined) compared with 135 in 2013 (for CFC1 only). The improvement in mature CFC UPH was driven mainly by CFC2 productivity which was over 150 UPH by the end of the period. Deliveries per van per week have risen to 163 (2013: 160) as customer density improved as a result of the increase in orders with only a modest growth in geographic delivery areas, offset by a reduction in road speeds due to increased congestion and an investment to improve on time delivery in a number of locations (deliveries on time or early improved from 95.2% in 2013 to 95.3% in 2014). During the period we opened a four new spokes in Ruislip, Enfield, Sheffield and Knowsley to increase our distribution capacity rather than to grow our geographic coverage. As a result, spoke fixed costs as a percentage of sales increased, but will reduce as our business scales and the capacity is more fully utilised.

Total administrative expenses excluding depreciation, amortisation and costs recharged to Morrisons increased to £62.1 million, a 13.5% increase from 2013 and 6.9% as a percentage of retail revenue (2013: 7.0%). Some of the cost increases are due to additional technology costs to operate the Morrisons services which are not recharged to Morrisons but for which the Group earns fees, additional payroll costs in technology and non-food and greater share based management incentive costs. Marketing costs excluding voucher spend were £10.0 million (2013:

£10.1 million), 1.1% percent of revenue (2013: 1.3%). Despite lower marketing spend, there was an increase in new customer acquisitions.

Total depreciation and amortisation costs were £55.0 million (2013: £43.9 million), an increase of 25.3% year-on-year. This increase includes an impairment charge of £2.6 million (2013: £1.3 million) and higher depreciation and amortisation arising from the increased investment required for the development of CFC1 and CFC2 and includes depreciation on assets effectively owned partially by Morrisons. The impairment charges are due to the write off of certain assets at the White City spoke which is being relocated to Park Royal and due to improvement projects at CFC1 and changes to systems or fulfilment assets to enable the Morrisons operations at CFC2 which result in impairment to existing assets.

SHARE OF RESULT FROM JOINT VENTURE

MHE JVCo Limited ("MHE JV Co") was incorporated in 2013 on the completion of the Morrisons agreement, with Ocado owning a 50% equity interest in this entity. MHE JV Co holds CFC2 assets, which Ocado uses to service its and Morrisons' businesses. During the period the Group sold £23.4 million (2013: £129.2 million) of CFC2 related assets to MHE JV Co, £31.0 million (2013: £113.1 million) of assets were leased back to the Group under a finance transaction. The Group share of MHE JV Co profit after tax in the period amounted to £2.4 million (2013: £0.9 million).

EXCEPTIONAL ITEMS

Exceptional items of £0.3 million (2013: £4.6 million) were incurred in relation to a group restructuring of corporate entities.

	FY 2014 £m	FY 2013 £m	Variance
Central costs – other ¹	47.1	42.1	11.9%
Central costs – share based management incentives	5.0	2.5	98.1%
Marketing costs (excluding vouchers)	10.0	10.1	(1.0)%
Total administrative expenses	62.1	54.7	13.5%

1. Excluding chargeable Morrisons costs, depreciation, amortisation and impairment

NET FINANCE COSTS

Net finance costs were £9.1 million (2013: £7.0 million excluding exceptional finance costs of £2.8 million). This increase was attributable to £3.5 million of additional interest from the sale and leaseback arrangements with MHE JV Co, offset by a reduction of £1.9 million of interest costs in 2013 on loans in connection with the construction and fit out of CFC2, which were not incurred in 2014.

PROFIT BEFORE TAX

Profit before tax and exceptional items for the period was £7.5 million (2013: loss of £(5.1) million). Profit before tax for the period was £7.2 million (2013: loss of £(12.5) million).

TAXATION

Due to the availability of capital allowances and Group loss relief, the Group did not pay corporation tax during the year. In the period, the Group has made a claim for energy saving technologies within its existing CFCs under the enhanced capital allowances scheme, resulting in an amount due from HMRC of £0.1 million. No net deferred tax credit was recognised in the period. Ocado has approximately £285.3 million of unutilised carried forward tax losses at the end of the period. During 2014 Ocado paid £29.1 million in a range of taxes including fuel duty, PAYE and Employers' National Insurance, business rates and VAT.

EARNINGS/(LOSS) PER SHARE

Basic earnings per share was 1.24p and diluted earnings per share was 1.18p.

CAPITAL EXPENDITURE AND CASH FLOW

Capital expenditure for the period was £86.4 million (2013: £76.3 million) and comprised of the following:

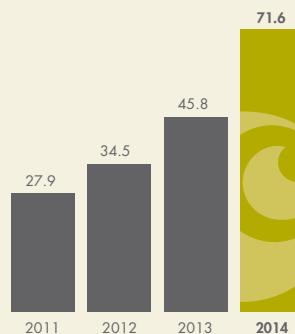
Investment in CFC1 capital expenditure was £9.2 million on resiliency projects (e.g. additional cranes and refurbished zone pick aisles) and improvement projects (e.g. bagging machines). This is at a higher rate compared with 2013 as the switch of some volume to CFC2 during 2014 provided a temporary period of lower utilisation of the CFC1 which gave an opportunity to undertake these capital projects.

In the period a further £1.7 million capital expenditure was incurred for the completion of Phase 1 works and various minor projects in CFC2.

In July 2014, we announced plans for our next CFC located in Andover, Hampshire in the south of England. Andover CFC will be smaller than our existing CFCs (expected capacity of 65,000 OPW), and will include the first example of our proprietary picking system which is designed in the long term to be faster to install and more cost and capital efficient than the system at the current CFCs.

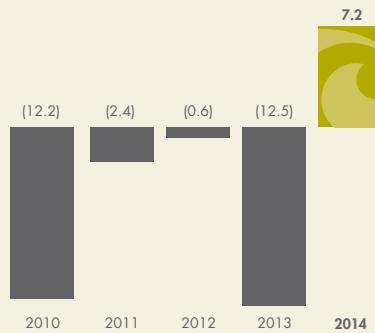
EBITDA (£m)

71.6
2013: 45.8



PROFIT/(LOSS) BEFORE TAX (£m)

7.2
2013: (12.5)



	FY 2014 £m	FY 2013 £m
CFC1	9.2	5.9
CFC2	1.7	38.0
CFC3	16.5	—
Delivery	22.1	10.8
Technology	16.8	14.1
Other	20.1	7.5
Total capital expenditure^{1,2} (excluding share of MHE JV Co)	86.4	76.3
Total capital expenditure³ (including share of MHE JV Co)	98.1	132.3

1. Capital expenditure includes tangible and intangible assets
2. Capital expenditure excludes assets leased from MHE JV Co under finance lease arrangements
3. Capital expenditure includes Ocado share of the MHE JV Co capex in 2014 of £11.7 million and in 2013 of £56.0 million

CHIEF FINANCIAL OFFICER'S REVIEW continued

"Our technology headcount grew to 550 staff at the end of the period."

"We continue to reinvest our cash for our future growth plans."

Investment in new vehicles, which are typically on five year financing contracts, was £12.5 million which is higher than the prior year (2013: £9.0 million) to support the business growth. Delivery capital expenditure also included investments for new spokes of £8.5 million, including the purchase of the freehold of a site in Dagenham which opened, after the period end, in January 2015.

Ocado continued to develop its own proprietary software and £14.1 million (2013: £10.4 million) of internal development costs were capitalised as intangible assets in the period, with a further £2.7 million (2013: £3.7 million) spent on computer hardware and software. Our technology headcount grew to 550 staff at the end of the period (2013: 400 staff) as increased investments were made to support our strategic initiatives, including the commencing of a major replatforming exercise of Ocado's technology and migration of most of its systems to run on a public or private cloud. This will allow Ocado to achieve greater technical agility and enable the technology to support possible international expansion opportunities. In addition, we have invested internal technology resources as part of developing the following capital projects: CFC2 Phase 2; next generation of fulfilment solutions; development of the Morrisons proposition; and launch of new destination websites.

Other capital expenditure includes £16.3 million of investment in developing our next generation fulfilment solution, £1.8 million for the second phase of the NFDC to provide further capacity to support our non-food business growth and a further investment of £1.3 million to support the growth of our non-food destination sites and webshop.

At 30 November 2014, capital commitments contracted, but not provided for by the Group, amounted to £22.9 million (1 December 2013: £28.8 million). We expect capital expenditure in 2015 to be approximately £150.0 million, to be invested in the next generation of fulfilment 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.

During the year the Group generated improved operating cash flow after finance costs of £74.3 million, an increase of 23.0% year-on-year, up from £60.4 million in 2013, as detailed below:

 View more information about independent auditors' report on pages 132 to 138

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	FY 2014 £m	FY 2013 £m
EBITDA	71.6	45.8
Working capital movement ¹	8.7	23.5
Exceptional items	(0.3)	(4.6)
Other non-cash items ²	4.0	2.8
Finance costs paid ¹	(9.7)	(7.1)
Operating cash flow	74.3	60.4
Capital investment ¹	(78.8)	(77.5)
(Decrease)/Increase in debt/finance obligations ³	(33.4)	34.2
Proceeds from share issues net of transaction costs	3.7	3.8
(Decrease)/Increase in cash and cash equivalents	(34.2)	20.9

1. FY 2013 capital investment was adjusted for capitalised borrowing costs attributable to an adjustment in working capital and finance costs paid
2. Other non-cash items include movements in provisions, share of income from MHE JV Co and share based payment charges
3. FY 2013 includes sale and leaseback of MHE assets to MHE JV Co



The operating cash flow increased by £13.9 million during the year primarily as a result of an increase in EBITDA of £25.8 million. This was offset by a reduction in positive movement in working capital of £14.8 million driven by a reduction in trade and other payables due to timing of payments for capital projects and the amortisation of a one off payment received in 2013 as part of the Morrisons agreement. In addition trade and other receivables reduced by £6.5 million arising from a capital contribution into MHE JV Co to finance the acquisition of CFC2 fixed assets. Additional funds to finance these CFC MHE fixed assets is received from the payment by Ocado of finance lease obligations owing to MHE JV Co.

We continue to reinvest our cash for future growth and as a result the cash outflow due to capital investment increased to £78.8 million comprising investments in CFC3, development of our next generation fulfilment solution and spend on spoke sites.

In the period £33.4 million of cash was utilised for the repayment of debt and financing obligations. The prior year included the proceeds from the MHE sales and leaseback arrangement entered into as part of the Morrisons agreement.

KEY PERFORMANCE INDICATORS

The following table sets out a summary of selected unaudited operating information for 2014 and 2013:

	FY 2014 (unaudited)	FY 2013 (unaudited)	Variance %
Average orders per week	167,000	143,000	16.8%
Average order size (£) ¹	112.25	113.53	(1.1)%
Mature CFC efficiency (units per hour) ²	145	135	7.4%
Average deliveries per van per week (DPV/week)	163	160	1.9%
Average product wastage (% of revenue) ³	0.8	1.0	(0.2)%
Items delivered exactly as ordered (%) ⁴	99.3	99.0	0.3%
Deliveries on time or early (%)	95.3	95.2	0.1%

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 and including standalone orders) per order
2. Measured as units dispatched from the CFC per variable hour worked by CFC1 and CFC2 operational personnel in 2014. 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
4. Percentage of all items delivered exactly as ordered, i.e. the percentage of items neither missing nor substituted



Which?

Best Online Grocer 2014
Members Annual Satisfaction Survey
Best Online Grocer 2013
Members Annual Satisfaction Survey



Loved By Parents

Best Online Retailer 2014
Best Grocery Product 2014
Best Child's Snack 2014



Website of the Year

Best Shopping Website



Soil Association

Best Organic Supermarket 2014



Health and Fitness, and Women's Fitness

Best Retailer 2015 — Gold
Healthy Snack Boxes 2015, Ocado
Organic Fruit Box — Gold
Organic Food 2015, Ocado Organic
Small Veg Box — Gold



Foods You Can

Best Large Online Supermarket 2014

OUR AWARDS 2014

CONSUMER AWARDS 2014

During 2014 we were delighted to be recognised for our achievements, a number of which are highlighted below.

Ocado was voted Best Online Grocer by Which? Magazine (Members Annual Satisfaction Survey) and Best Online Retailer (Gold). We also received recognition as Best Large Online Supermarket 2014 in the Foods You Can, Free From People's Choice Golden Apple Awards, for our extensive offering in our Free From Range.

We were also voted by more than 11,000 consumers as the Best Organic Supermarket 2014 in the 28th annual Soil Association Awards. Our webshop offers over 2,800 organic products available for delivery to customers in the UK. Our rapidly growing range of organic groceries, toiletries, beauty and baby products, pet food and household goods are available at the touch of a button at Ocado.com/organic.

We also won a number of awards for our Ocado own-label products. These included the Loved by Parents Best Grocery Product for our Ocado own-label organic juicing boxes, fruit boxes and vegetable and salad boxes, as well as for a range of our fresh fish by Quality Food Awards.

The annual Britain's Next Top Supplier campaign was acclaimed in the PRCA Awards, which showcase the best in the PR industry as judged by leaders in the field. We also secured the Corporate Social Responsibility accolade, which recognises work that promotes an organisation's CSR programme, via either a one-off campaign or ongoing work.

BRAKE FLEET SAFETY AWARDS 2014

Ocado fleet trainers and Service Delivery Team were awarded the Company Driver Safety Award (medium fleet) for fleet safety by BRAKE. This highly regarded award, recognises the high standards delivered each day by our fleet of drivers.

Neil Shaw, Head of Training and Development — Service Delivery, was also recognised as Road Risk Manager of the Year for his commitment to delivering a programme which has enabled Ocado to lead the way in fleet safety amongst our peers.

2014 BUILDING PUBLIC TRUST AWARDS

Ocado won the award for "Corporate Governance Reporting in the FTSE 250" at the 2014 Building Public Trust Awards, in respect of the Annual Report for 2013. This award highlights the Group's efforts in developing a strong framework of governance and risk management and continued excellence in its reporting to shareholders.

APPRENTICE OF THE YEAR 2014

Ryan Scales was voted Apprentice of the Year by the '3aaa Academy' beating 12,000 apprentices to take the title. Ryan was one of 25 people to be nominated, put forward by employers and staff from the 3aaa Academies across England, for their hard work and dedication throughout the year.



View more information about the Apprentice of the Year on page 56



View more information online at www.ocadogroup.com

CORPORATE RESPONSIBILITY



"As online pioneers, we've already helped to change the way people shop for groceries; now we want to change the world too, a little bit at a time."

Corporate responsibility has undergone some major developments during the period of this report, the details of which follow below.

THE OCADO WAY

From the beginning, Ocado has been passionate about minimising environmental impacts, and as our activities and responsibilities have grown, we have responded with our strategy.

Our new 2020 Vision "The Ocado Way" is underpinned by three guiding principles that we aspire to:

- For every employee to be engaged with our CR strategy, aspirations and intentions
- Ensure we are a well-run, responsible, sustainable business
- Where we believe there is an opportunity to use our position and expertise for good, to step up and take it.

Building on work undertaken to date, our new 2020 vision "The Ocado Way" has four strategic pillars: Education, Entrepreneurship, Environment and Eating Well, focusing on areas where we can make a meaningful difference.

 View more information online at
www.ocadogroup.com

THE OCADO WAY STRATEGIC PILLARS



EDUCATION



ENTREPRENEURSHIP



ENVIRONMENT



EATING WELL



EDUCATION

Ocado's success stems from cutting edge technology. We see a significant opportunity with Code for Life to play a role in promoting technology, and our Road Safety programme aims to raise awareness of large vehicles with children and young people.

CODE FOR LIFE

Ocado.com is the world's largest online-only grocery retailer. Customers use our award-winning mobile applications and website to place their orders, which are packed in our world-class automated warehouses, and delivered in one-hour time slots.

Under the surface is a dynamic technology business, Ocado Technology, that has the look, feel and culture of an innovative software start-up — developing all the software that powers the Ocado.com and Morrisons.com retail businesses.

We believe the ability for children to code will in future years become as important as literacy and maths are today. With that in mind, we developed Code for Life, an initiative to help support primary school teachers deliver the new computer science curriculum. We are keen to lend our support to a programme that will enable every child in the country to flourish in an increasingly digital world, armed with "coding survival skills".

Our Road Safety programme is in the early stages of implementation, and we look forward to sharing more in future years.



ENTREPRENEURSHIP

Ocado began life 15 years ago as a small start up with an entrepreneurial spirit, passion and enthusiasm. While we have significantly grown in the last 15 years, a great deal of "the early days" still stays with us — and we are keen to use our example and our influence as a platform for change — inspiring the next generation of students, entrepreneurs and small British businesses.

BRITAIN'S NEXT TOP SUPPLIER

Building on our proud entrepreneurial history, "Britain's Next Top Supplier" supports new, up and coming suppliers by running an annual competition aimed at suppliers and producers looking to take the next step towards commercialising their product.

In 2015 our Chairman, Lord Rose, and Chef Tom Kerridge, will again both sit on the judging panel for the competition alongside Ocado buyers — aimed at finding that "next new product".

The 2014 winner, Hiver Beers, won the opportunity to be stocked at Ocado as well as a £10,000 marketing package to promote the product — and sales are going well for the small, niche brewery following this opportunity.



blog.ocado.com/2014/01/06/bnts/



CASE STUDY: EDUCATION & CODE FOR LIFE

September saw the launch of Ocado Technology's Code for Life initiative, which sets out to provide primary school children with the ability to write code. Aimed at primary school teachers in England, the free teaching resource called Rapid Router will complement the Key Stage in Computing.

Rapid Router offers a number of coding tools including games, detailed lesson plans for pupils learning Key Stage 1 (children aged 5–7 years) and lower Key Stage 2 (children aged 7–9), unplugged educational activity and coding videos including Ocado Technology programmers.

In less than 4 months, Code for Life has been adopted by more than 13,500 users and over 300 schools are using the tools!



www.codeforlife.education/

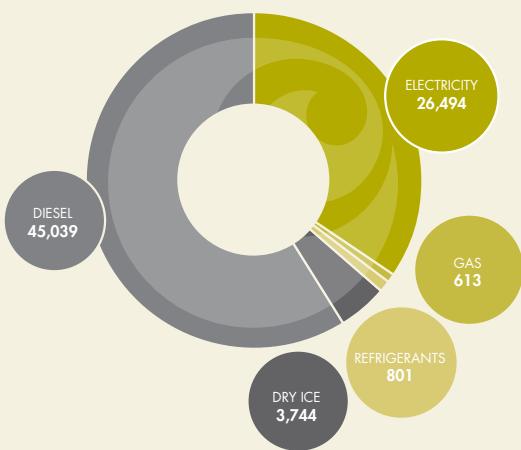


CORPORATE RESPONSIBILITY continued

"We aim to be the UK's greenest, most innovative and best value grocery retailer by providing a more environmentally efficient alternative to traditional supermarkets."

"Our leading edge, in-house routing system makes over 3 million routing calculations per second, finding the most efficient delivery routes."

GHG EMISSIONS – CO₂e TONNES



ENVIRONMENT

During the period, we partnered with The Carbon Trust to help us re-evaluate our strategic direction for carbon and waste. A revised, more targeted strategy is being drafted, taking into account our rapidly growing business and ever changing industry.

GREENHOUSE GAS EMISSIONS

We have measured our greenhouse gas emissions for many years, but it was in the previous period, 2 December 2012 to 1 December 2013, that we formally reported a baseline against which we now track our reductions and efficiencies.

The Group's reported emissions have been prepared and calculated with reference to environmental reporting guidelines (2014), issued by Defra and using conversion factors published by DECC/Defra May 2014. Further details regarding our data and preparation can be found on our website.



View more information online at www.ocadogroup.com

GHG EMISSIONS (TONNES CO₂E)

	2012/13	2013/14
Scope 1 — Direct	39,530	50,198
Scope 2 — Indirect	21,613	26,493
Total Emissions	61,143	76,691
Intensity measures:		
Tonnes CO ₂ e / 1,000 orders	8.23	8.15

The baseline for last year has been slightly adjusted upwards from the data in last year's report, due to actuals replacing estimates.

Over the period, our emissions increased compared to the previous year, as set out in the table below. During 2013/14, the Group has significantly increased the volume of orders for both Ocado.com and Morrisons.com, an increase of 26.7% compared to the previous year. We continue to make efficiency gains from the increasing orders at our CFCs and the opening of additional spokes which result in shorter van journeys, combined with continuous improvements in technology.

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



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Our largest carbon contributions still come from the fuel used in the vehicles used to transport orders and the electricity consumption used at our CFC's and spokes. The reporting period covered by the emissions data is the same as the financial year, being the 52 weeks ended 30 November 2014.

Our third generation delivery van continues to operate on the premise of maximising the potential payload whilst having the lowest environmental impact possible.

We reduce the environmental impact of the vans by (1) increasing fuel efficiency, (2) improving routing and reducing distance travelled, and (3) increasing deliveries per van route. Our leading edge, in-house routing system enables us to minimise road mileage and take full advantage of the payload available by making over 3 million routing calculations per second, finding the most efficient delivery routes. Working with our body constructor Paneltex for many years, we have increased the payload of our 3.5 tonnes sprinter van fleet by 41%. We also operate FleetBoard in all our trunking fleet, a driver management tool optimising fuel efficiency. We are exploring equivalent options in the van fleet.

CLOSED LOOP RECYCLING

Ocado collects both our own and other retailers' carrier bags from our customers. On average, customers return more than 65% of all carrier bags and we then recycle them back into carrier bags to be used again. This all takes place within the UK, rather than being sent overseas — minimising carbon emissions from transportation.

Recycling and reuse of carrier bags is well understood by customers, who work with us and other retailers to help reduce the environmental impact of carrier bag use. We believe we remain the only retailer to take both our own, and other retailers' carrier bags, and recycle them back into carrier bags.

GREEN VAN SLOTS

We offer further carbon reductions through the "green van" slots on our time slot booking page. The idea is simple – if we are delivering in an area at a particular time, we can advise at the time of booking, enabling customers to choose an adjacent time slot – thereby minimising drive time and fuel use for deliveries.

WASTE

Our waste volumes remain at low levels (compared to the industry) and where possible we find ways to re-use any food.

Food close to its "use by date" goes to our food bank partners, some to Company Shop Limited, and in turn on to Community Shop, and finally to a number of animal parks we also support.

"On average, customers return more than 65% of all carrier bags and we then recycle them back into carrier bags to be used again."

"Our waste volumes remain at low levels (compared to the industry) and where possible we find ways to re-use any food."



CORPORATE RESPONSIBILITY

continued

CASE STUDY: EATING WELL AND REDUCING FOOD WASTE

SOUTHEND VINEYARD STOREHOUSE

Ocado has a well-established and long-standing partnership with Southend Vineyard Storehouse, a busy centre which helps thousands of poor, homeless and vulnerable people each year, issuing 500 food parcels to people in crisis every week.

For five years, volunteers from The Storehouse, have collected food still within "use by" date for their food bank and community café.

The food bank sees on average 150 people every day and the café can feed anywhere in the region of 200 each day it opens its doors, showing people with very difficult lives some warmth, kindness and respect as they receive food which they could not otherwise afford.

"The relationship we have with Ocado is hugely important to us at The Storehouse. Weekly collections from Ocado underpin our food programme, helping us to feed thousands of disadvantaged people affected by the recession as well as many homeless and vulnerable people. It is no exaggeration to say that without Ocado we would not be able to provide food for the 90 families and over 500 individuals who depend on our service every week. Ocado is truly our partner in "Reaching Out and Changing Lives", and the Storehouse team is indebted to every Ocado team member who helps make the partnership happen. Thank you on behalf of every Storehouse volunteer and every single person who has ever received an emergency food parcel." John Williams, The Storehouse, Southend Vineyard



EATING WELL

Key to our Eating Well pillar, is a plan to support the role of food in health and nutrition and help reduce food poverty in the UK.

We believe that by offering the biggest range of nutritional choices, including the largest selection of nutritionally "free from" products in the UK, and ensuring there are always at least 100 fresh fruit and vegetables on promotion at any one time, we can contribute to the broader agenda of healthy eating and sound nutritional choices. This is about informed choices and offering the widest possible selection

to facilitate those choices, combined with recipes, and dietary and nutritional information.

We are also working hard to play our part in reducing food poverty in the UK.

This year, we launched a "Donate Food with Ocado" option for customers — they select a donation while doing their shop, and we match the contribution with groceries. This idea was based on feedback from our customers. Southend Vineyard, as our long-standing food bank partner (see case study), is the primary recipient for the time being, but we expect to broaden this to other food banks across the UK.



View more information online at
www.ocadogroup.com

TWYCROSS ZOO

In more recent years, since the opening of CFC2 in Dordon, we have grown our relationship with Twycross Zoo.

More than 1,200 kg of fruit and vegetables are donated to Twycross Zoo weekly, feeding the animals with food unfit for human consumption — but still perfectly edible for the residents of the zoo.

We plan to continue both this and other partnerships in our efforts to avoid sending food waste to landfill.

COMMUNITY AND CHARITABLE GIVING

During the period, our employees voted for Macmillan as "Charity of the Year" for the fourth year. Fundraising throughout the year has included a summer ball, football tournament, cake bakes and a host of sponsored activities across the country. This year, employees have raised more than £65,000, bringing the total to date to £190,000.

"Since our partnership began four years ago staff have thrown themselves into running, cycling, holding coffee mornings, quizzes, balls, barbeques, football matches and much more. From this company-wide effort we're thrilled that to date our partnership has raised nearly £200,000 and is raising vital awareness of Macmillan.

"The Ocado staff are incredible and we can't thank them enough for their continued support and for helping us to ensure no one has to face cancer alone."
Claire Singlehurst, Director of Regional Fundraising, Macmillan

We get approached by many charities, schools, sports and community groups throughout the year asking for charitable support. Whilst we are unable to assist every request, we try where we can — and during the period have donated almost £25,000 to small, often local, events and activities.



"PEAS ONE DAY"

Ocado has been a supporter of the organisation Peace One Day for a number of years. Unlike in previous years, this year we chose to involve our customers and during the period leading up to the annual Peace Day (21 Sept), 20p from every pack of frozen peas was donated to the charity. We were delighted to raise £13,350 for Peace One Day's campaign.

Through our continued partnership with Waitrose, we made donations to the Waitrose Foundation, totalling £53,000 during the Waitrose financial year 2013/14. This was from sales of fruit and vegetables; and also in the same period, we made a donation of over £159,000 to the Prince of Wales's Charitable Foundation, through sales of Duchy branded products.

No political donations were made by the Group to any political party, organisation or candidate during the period (2013: nil).

Ocado is committed to the upholding and respect of human rights. We expect our suppliers to operate in a fair and honest way towards their employees and with whom they do business.

Give PEAS a Chance



PEACE
ONE DAY

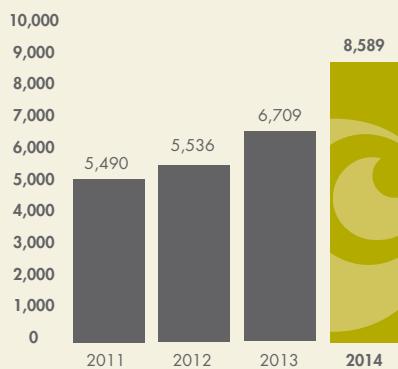
OUR PEOPLE



Our Values

- We're in it together
- Value each person
- Love what we do
- We can be even better

ALL EMPLOYEES*



* Number of employees as at period end.

WE VALUE OUR PEOPLE

We are a business that values our people. Our employer brand is paramount to our ability to attract the best talent at the rate we need to match our pace of growth. Our values are at the heart of our culture and they reflect our entrepreneurial spirit and drive, preferring the excitement of change to the risks of standing still.

WE RECRUIT TALENTED PEOPLE

Our business is built on innovation, on finding solutions, and on delivering world-class service. Our recruitment team has been effective in meeting the significant challenge of recruiting the employees needed for our continuous growth, with total employee numbers growing by over 29% in the period. We attract and

encourage candidates to apply directly for roles with Ocado, rather than relying on third party agencies. Keeping this process in-house enables us to bring like-minded people into the Ocado team, is cost-effective and lets us reinvest these savings back into our learning and development programmes.

Our focus remains on attracting those with a can-do attitude who share our entrepreneurial spirit and determination to succeed.

We take pride in being recognised as one of the top graduate recruiters, providing us with the opportunity to pick the best young professionals at the start of their career.

CASE STUDY: APPRENTICE OF THE YEAR

RYAN SCALES

One such successful appointment was of Technology Helpdesk Technician Ryan Scales. In December 2014 he was voted Apprentice of the Year by the "3aaa Academy", beating 12,000 apprentices to take the title. Ryan, 21, has been part of team Ocado for 16 months, and was announced the winner at a ceremony held at the House of Lords. Ryan was

one of 25 people to be nominated by employers and staff from the 3aaa Academies across England for their hard work and dedication throughout the year.



DIVERSITY

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

Gender diversity is encouraged but is not always easy to implement. Women are under-represented in engineering and computer science university courses, and the gap is widening. Men constitute 83% of engineering graduates and 81% of computer science graduates (HESA data 2006-2012), and to add to the problem the total number of UK computer science graduates has decreased during this period. Our answer to this is to reach out to them early – our Code for Life initiative provides a fun and effective tool for primary school children to gain the ability to write code (further details on page 51). We hope that developing this skill in girls when they are still very young will encourage more young women to continue with high school and university courses in computer science.

The charts on the right 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.

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

ENGAGING OUR PEOPLE

Every one of our employees plays a part in the Ocado story; from running our automated warehouses, to buying our product range, managing our accounts, answering customer calls, and picking and delivering shopping to our customers' doors. In return we work hard to engage our employees in our vision.

This extends beyond keeping colleagues informed of the Company's performance and issues that affect them day to day. Through communications channels such as face to face briefings, rolling plasma screens in communal spaces, our intranet (The Grapevine) and our in-house magazine (Juice), we deliver a variety of messages on a diverse range of stories in a tone of voice that's relevant to our people.

We also encourage formal two-way communication through our annual employee survey and our employee representative body, the Ocado Council, both of which help us identify areas where we can improve as an employer and encourage participation and consultation in the decisions we make.

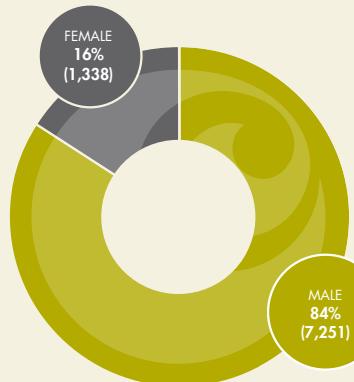
Ocado maintains a voluntary union recognition agreement with USDAW, which is integrated with our Ocado Council, to voice the views of our hourly paid employees.

The Ocado Council works constructively on behalf of all our employees. It has regular interaction with Ocado's senior leadership team, and is divided into business areas to give every single employee representation through an elected committee. A small number are then elected to a National Council, which deals with matters relevant across the Group. It is chaired by a Non-Executive Director, giving employees at all levels of the Group direct access to the Board.

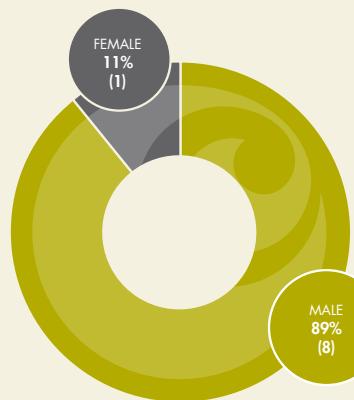
ACAS trained Council representatives are consulted on matters that affect all employees, such as new ways of working, benefits at work, new equipment, and training and development.

We have a diverse range of employee engagement activities - from charitable events to sporting activities, and some of which unashamedly have no purpose other than to have fun.

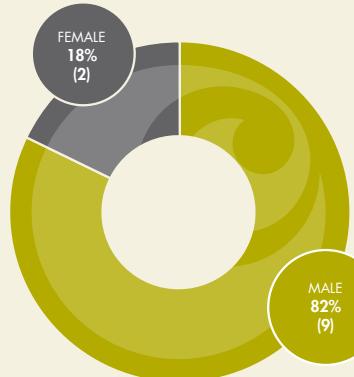
ALL EMPLOYEES¹



SENIOR MANAGERS²



DIRECTORS



OUR PEOPLE

continued



CASE STUDY: MEET ANNE MARIE NEATHAM

CHIEF OPERATING OFFICER (OCADO TECHNOLOGY)

I grew up in Ireland and took a BSc in Computer Science in University College Cork.

I started my career in Dublin as a software engineer with a small development company. I moved to Boston in the US where I worked as a software developer rolling applications out to companies that had been acquired in the UK, Germany and Portugal.

Since 2001 I have been head of different technical development departments in Technology at Ocado. It has been exciting to be part of something that has grown and changed from nothing to the success story it is today.

In 2012 I became Head of Ocado Technology Poland. It was a fantastic role, combining the setting up of a business from scratch in another country with managing technical development. In Krakow we introduced the Ocado Technology brand so that it would be clear that we were a serious technical proposition in the city. We are viewed as a premium employer of choice because of the solutions we develop to challenging technical issues. Our technical team in Krakow are talented, enthusiastic and hardworking, which complements the excellence of the teams in the UK.

At the beginning of this year I returned to the UK as Chief Operating Officer – Ocado Technology. My remit includes our Polish office, Infrastructure and Ops, our organisational development and general management. It is an exciting time as Ocado looks to commercialise its technology and operating knowledge.

WE DEVELOP OUR PEOPLE

Training and developing employees is a vital part of enabling them to forge their career with Ocado.

Using talent matrix mapping we identify potential successors for every middle and senior management role, placing strong emphasis on developing our talent across the business and further embedding appraisals as a development tool. We now have an in-house management training curriculum including more than 300 e-learning modules and over 30 different workshops, team building days, a learning library and individual coaching.

Developing people is exciting, but also a challenge when growing a business as fast as we are. The biggest increase in employees of more than 30%, was in our delivery driver team. We call them our Customer Service Team Members, and their job title describes how they are essential to the success of Ocado. Our proprietary programme for recruiting, training and developing CSTMIs was created by our HR department and is managed entirely in-house.

OCADO DELIVERS AWARD WINNING DRIVER TRAINING

Our comprehensive eight-day training programme is mandatory for all new CSTMIs and refreshed at regular intervals. It covers:

- Health and Safety
- Food Safety
- Manual Handling
- Eco Safe Driving – theory and practical
- Customer Service
- Use of On-the-Job Systems

Its success was recognised when Neil Shaw, our Head of Service Delivery Training and Development won Road Risk Manager of the Year at the 2014 Brake Fleet Safety Awards.

Ocado also won the Company Driver Safety award in our size category for our sharp focus on fleet safety through continuous training, communication and recognition.

DEVELOPING AN IOSH-ACCREDITED HEALTH AND SAFETY TRAINING PROGRAMME

Historically Ocado outsourced Health and Safety training but found it was increasingly failing to match our organisation's specific requirements.

This year we developed and designed a custom-made training health & safety management training programme. It gained IOSH (Institution of Occupational Safety and Health) accreditation in March 2014 and IOSH now use part of this material in its own marketing and publications.

RETAINING OUR PEOPLE

Retaining our people is as important to us as developing them, particularly on the operational side. Warehousing as an industry has a high labour turnover rate, but we are working hard to manage this across our CFCs. Initiatives range from incentive and retention schemes to healthy eating programmes and subsidised cafes.

Our ten-year service award recognises those who have contributed to the Ocado story and marks a milestone in their career. In 2015 we will be celebrating 15 years' service with all those who have been with Ocado from the start.



Ocado van wraps — going the extra mile to recruit the best

In addition to significantly increasing the number of employees at our existing sites, during 2014 we also opened four new spokes with between 90 and 160 new employees at each.

RECOGNITION AND REWARD

To make Ocado an employer of choice our comprehensive employee benefits package includes a choice of pension schemes with employer contribution, life assurance, private medical insurance, critical illness cover and an employee assistance programme. There is also a range of traditional benefits and industry-leading 15% employee discount on all shopping with Ocado.

We have a commitment to ensuring that all employees share in the Group's success. Employees are able to buy Ocado shares with pre-tax income, and we have a Save As You Earn scheme that allows employees to save up to buy Ocado shares at a pre-set price.

In 2014 we replaced our historical programme of granting share options to all employees with a programme to give free shares equivalent to 1% of basic pay to all employees with six months or more service. Our intention is for this to repeat annually.

STRATEGIC REPORT

The Company's Strategic report is set out on pages 2 to 59.

Approved by the Board and signed on its behalf by

Neill Abrams

Legal & Business Affairs Director and
Company Secretary
Ocado Group plc

3 February 2015



CASE STUDY: MEET MATT ROBSON

A SENIOR DEMAND MANAGER WHO HAS BEEN PART OF OCADO FOR 11 YEARS . . .

I joined Ocado in 2003 as a part-time CSTM whilst studying for an Automotive Engineering degree.

When I finished university I decided to stay with Ocado and move into a full-time CSTM position delivering groceries. I was employee number 738 in Ocado's history.

I spent two years as a CSTM; being out on my own in the van taught me to be organised. From there, I moved to the Contact Centre, where there were lots of opportunities to develop and I soon moved into a supervisory role. Many of my colleagues from that time remain in the business today.

I was promoted again to Supply Chain – where I still work today as a Senior Demand Manager, heading up a large team maintaining the availability of thousands of grocery products, whilst continuing to keep our wastage at incredibly low levels. We look after the inbound service for our entire supply base – over 1,000 suppliers and growing – maintaining close links with our retail and operational teams.

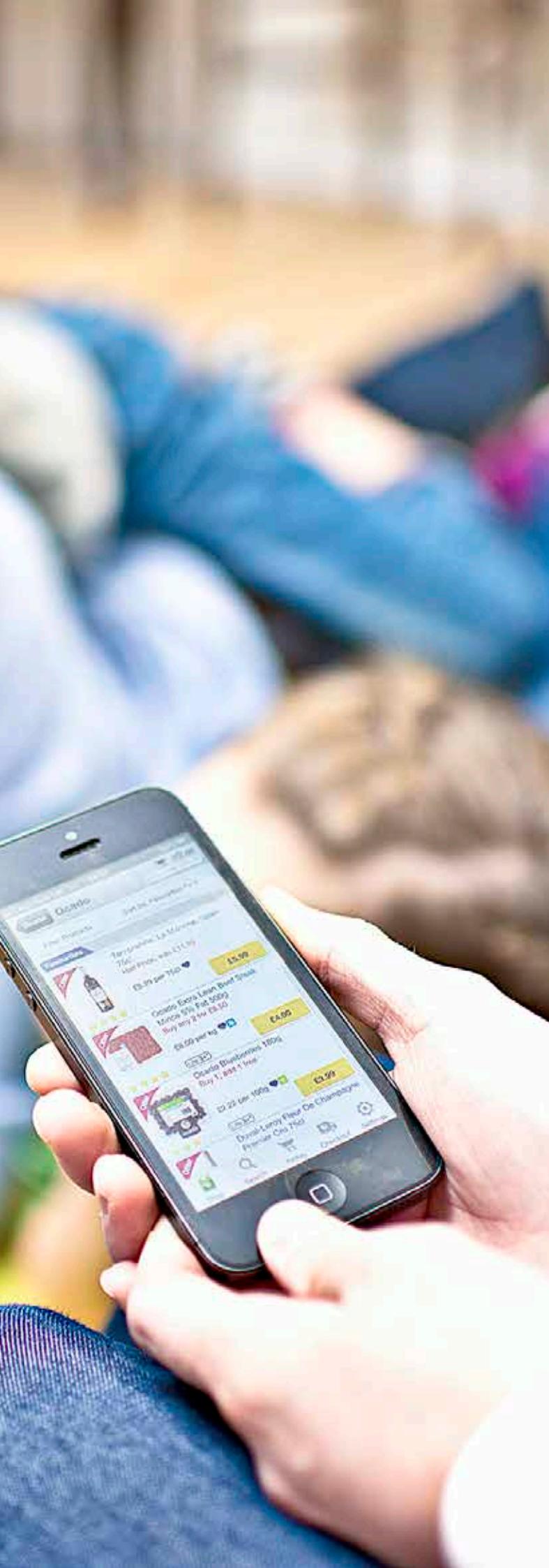


View more information online at
www.ocadogroup.com



GREAT
SERVICE

"We provide industry leading service in terms of timeliness and order accuracy...our customers regularly commented on the outstanding service provided by our Customer Service Team Members."



OUR GOVERNANCE

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View our Chairman's Statement
on page 6



View more information online at
www.ocadogroup.com

BOARD OF DIRECTORS



LORD ROSE, CHAIRMAN

Age 66

APPOINTMENT TO THE BOARD

11 March 2013

COMMITTEE MEMBERSHIP

Nomination

EXTERNAL APPOINTMENTS

- Chairman of Fat Face Group Limited
- Chairman of Oasis Healthcare Limited
- Chairman of Stylemania Limited (Dressipi)
- Non-Executive Director of Woolworths Holdings Limited, listed in South Africa

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 a Non-Executive Director at Land Securities Group plc until January 2014. 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, CHIEF EXECUTIVE OFFICER

Age 45

APPOINTMENT TO THE BOARD

13 April 2000

RELEVANT EXPERIENCE

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



DUNCAN TATTON-BROWN, CHIEF FINANCIAL OFFICER

Age 49

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, OPERATIONS DIRECTOR

Age 50

APPOINTMENT TO THE BOARD

3 February 2012

EXTERNAL APPOINTMENTS

- Non-Executive Director at 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, 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, LEGAL & BUSINESS AFFAIRS DIRECTOR AND COMPANY SECRETARY

Age 50

APPOINTMENT TO THE BOARD

8 September 2000

EXTERNAL APPOINTMENTS

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

RELEVANT EXPERIENCE

Neill has been a Director since 2000, having advised Ocado since its founding. He has Board responsibility for legal, insurance, risk management, human resources and CR. Prior to Ocado, he was a barrister in practice at One Essex Court and an Executive Director and Counsel at Goldman Sachs in London. Neill graduated with BA and LLB degrees from the University of the Witwatersrand in Johannesburg and obtained a master's degree in Law from Sidney Sussex College, Cambridge. He is a member of the New York Bar and a South Africa Advocate.



DAVID GRIGSON, NON-EXECUTIVE DIRECTOR AND SENIOR INDEPENDENT DIRECTOR

Age 60

APPOINTMENT TO THE BOARD

9 March 2010

COMMITTEE MEMBERSHIP

Audit, Remuneration, Nomination

EXTERNAL APPOINTMENTS

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

RELEVANT EXPERIENCE

David has held a number of posts, including Chief Financial Officer at Reuters Group Plc, Group Finance Director at Enap plc, Chairman of EMAP Digital Limited, Chairman of Creston plc and Non-Executive Director of Carphone Warehouse plc. He graduated from the University of Manchester with a degree in Economics, and is also a member of the Institute of Chartered Accountants of England and Wales.



RUTH ANDERSON, NON-EXECUTIVE DIRECTOR

Age 61

APPOINTMENT TO THE BOARD

9 March 2010

COMMITTEE MEMBERSHIP

Audit, Remuneration, Nomination

EXTERNAL APPOINTMENTS

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

RELEVANT EXPERIENCE

Ruth was a Vice-Chairman of KPMG in the UK from 2005 to 2009, having been a member of the KPMG UK board from 1998 to 2004. At KPMG she worked extensively as an adviser with UK and international businesses. Ruth graduated from Bradford University with an honours degree in French and Spanish. She is a fellow of the Institute of Chartered Accountants of England and Wales and a member of the Chartered Institute of Taxation.



DOUGLAS McCALLUM, NON-EXECUTIVE DIRECTOR

Age 48

APPOINTMENT TO THE BOARD

3 October 2011

COMMITTEE MEMBERSHIP

Remuneration, Nomination

EXTERNAL APPOINTMENTS

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

RELEVANT EXPERIENCE

Douglas has been a pioneer of the internet industry for 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.



ALEX MAHON, NON-EXECUTIVE DIRECTOR

Age 41

APPOINTMENT TO THE BOARD

1 June 2012

COMMITTEE MEMBERSHIP

Audit, Nomination

EXTERNAL APPOINTMENTS

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

RELEVANT EXPERIENCE

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



JÖRN RAUSING, NON-EXECUTIVE DIRECTOR

Age 55

APPOINTMENT TO THE BOARD

13 March 2003

COMMITTEE MEMBERSHIP

Nomination

EXTERNAL APPOINTMENTS

- Member of Tetra Laval Group Board, and Chairman of its Remuneration Committee
- Member of the Board of Alfa Laval AB
- Member of the Board of DeLaval Holdings AB

RELEVANT EXPERIENCE

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



ROBERT GORRIE, NON-EXECUTIVE DIRECTOR

Age 55

APPOINTMENT TO THE BOARD

1 April 2000

COMMITTEE MEMBERSHIP

Nomination

EXTERNAL APPOINTMENTS

- Chairman of Tyres on the Drive Ltd

RELEVANT EXPERIENCE

Robert originally joined the Board in 2000 as Logistics Director, before becoming a Non-Executive Director in 2006. He was previously Group Director of Information Technology at Transport Development Group plc, where he spent ten years in a variety of commercial and operational roles. Prior to that Robert spent ten years in North America with the logistics service business Christian Salvesen PLC, where he reached the position of Director of Business Development. Robert graduated from Corpus Christi College, Oxford with an honours degree in Modern History and Economics.

CHAIRMAN'S OVERVIEW

Lord Rose
Chairman



"We embrace the challenge of continuing to improve our corporate governance reporting to shareholders."



View more information about corporate governance on pages 66 to 73



View more information online at www.ocadogroup.com

DEAR SHAREHOLDER,

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

I wrote in last year's annual report of the Board's obligation to provide assurance "that strategy is set, risks are evaluated and operations are carried out knowledgeably, transparently and with accountability". That remains as true today. The Board has always taken seriously its obligation to provide entrepreneurial leadership, and articulate its pioneering online retail strategy openly and determinedly. That strategy requires an ability and willingness to assess the risks faced by the Group and by the industry. In this context the Board welcomes the recognition by the FRC that "effective development and delivery of a company's strategic objectives, its ability to seize new opportunities and to ensure its longer term survival depend upon its identification, understanding of, and response to, the risks it faces". (FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting).

This Statement of corporate governance sets out how we manage the Company to achieve the Board's strategic objectives and optimise shareholder value. The Board recognises the increasing importance of governance to the Group, in the context of both the changing responsibilities under the 2014 Code and the important transformational projects being undertaken to deliver the long-term success of the Group.

LEADERSHIP

Whilst the Executive Directors are responsible for the day-to-day management of the business, the entire Board leads the Company and provides the debate and constructive challenge to management necessary to create accountability and drive performance. We are mindful that as the Group grows and the nature of the challenges it faces change, we need to ensure that the Board personnel are those best placed to provide the appropriate constructive debate on the Group's strategic direction. This year, as part of the annual Board performance review, the Board conducted a review of its skills and experience. This review will form the basis of Board discussions about the desired make-up of the Board for the future needs of the business.

In connection with the retirement of founding director Jason Gissing from the Board in May 2014, the Board considered its succession plans for executive management. The Board discussed the senior management roles necessary to support the growth of the business in UK retail but also for international expansion. The Board will continue to develop its succession plans in 2015.

REMUNERATION AND RELATIONS WITH SHAREHOLDERS

Incentivising our management team to deliver the Group's transformational technology projects is important to the future of our business. Informed by our discussions and consultations with our large shareholders, I believe that our remuneration arrangements are the most appropriate way to incentivise the Executive Directors and senior management to create and sustain value over the long term. Further details on remuneration are set out in the Directors' remuneration report on page 91.

ACCOUNTABILITY AND REPORTING

We have in place an effective and robust process, which enables us to ensure that this Annual Report is fair, balanced and understandable and provides the information for shareholders to properly assess the Group's position, performance, strategy and business model. Further details are set out in the Audit Committee report on page 75.

We embrace the challenge of continuing to improve our corporate governance reporting to shareholders. I am pleased to report that the Group won the "Corporate Governance Reporting in the FTSE 250" award at the Building Public Trust Awards 2014 in respect of the Group's 2013 annual report. We are encouraged by this recognition of the Group's efforts to ensure good governance reporting. We will continue to keep our reporting under review and welcome any feedback from shareholders.

ANNUAL GENERAL MEETING

Our Annual General Meeting will be held at 11 am on 15 May 2015 at Peterborough Court, 133 Fleet Street, London, EC4A 2BB. It provides an excellent opportunity to meet the Directors and I would like to encourage our shareholders to attend.

Lord Rose

Chairman
Ocado Group plc
3 February 2015



STATEMENT OF CORPORATE GOVERNANCE

INTRODUCTION

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

This Statement of corporate governance covers the following areas: the structure and role of the Board and its committees; the Board's effectiveness; relations with the Company's shareholders and the AGM; and the reports of the Nomination Committee and the Audit Committee. The report of the Remuneration Committee is set out separately in the Directors' remuneration report on pages 94 to 96. The Group's risk management and internal control framework and the Group's principal risks and uncertainties are described on pages 32 to 35. These sections form part of this Statement of corporate governance. The Directors' remuneration report on pages 91 to 129, the Directors' report on pages 82 to 89, and the going concern statement on page 87 also contain information required to be included in this Statement of corporate governance, and so are incorporated into this statement by reference.

The Financial Reporting Council updated the UK Corporate Governance Code in September 2014 (the "2014 Code"). The 2014 Code applies to reporting periods beginning on or after 1 October 2014, and so does not apply to the Company's reporting period ended 30 November 2014. However, the Board has, where appropriate and feasible, adopted some of the new provisions in the 2014 Code earlier than required and provides disclosure against these requirements in this Annual Report.

COMPLIANCE WITH THE 2012 CODE

The obligation of all listed companies is to comply with the provisions of the 2012 Code, or to explain why it has not done so. "Comply or explain" is an important recognition in the 2012 Code that not all provisions are applicable to all companies at all times. The Company has complied with the principles and provisions of the 2012 Code, except for provisions C.3.7 and D.2.2. These areas of non-compliance are explained in this Statement of corporate governance on pages 79 and 95 respectively. In respect of all other provisions of the 2012 Code, the Company aims to explain how its practices are consistent with the principle to which the particular provision relates, contribute to good governance and promote delivery of business objectives.

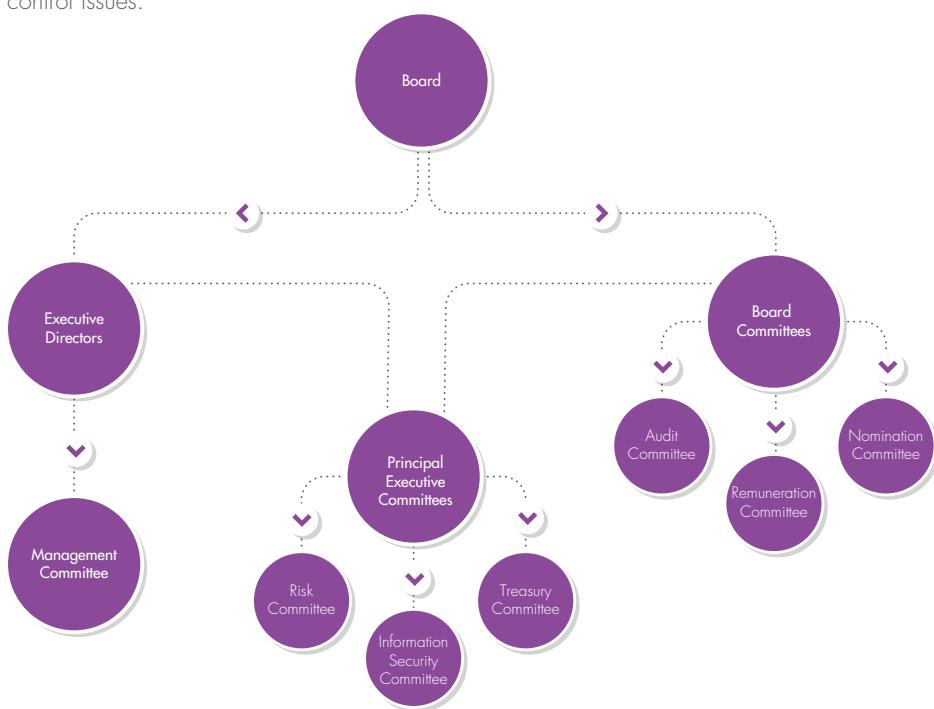
This separate Statement of corporate governance is approved by the Board and signed on behalf of the Board by its Chairman and the Legal & Business Affairs Director and Company Secretary. Certain parts of this Statement of corporate governance have been reviewed by the Company's auditors, PwC, for compliance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

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

LEADERSHIP

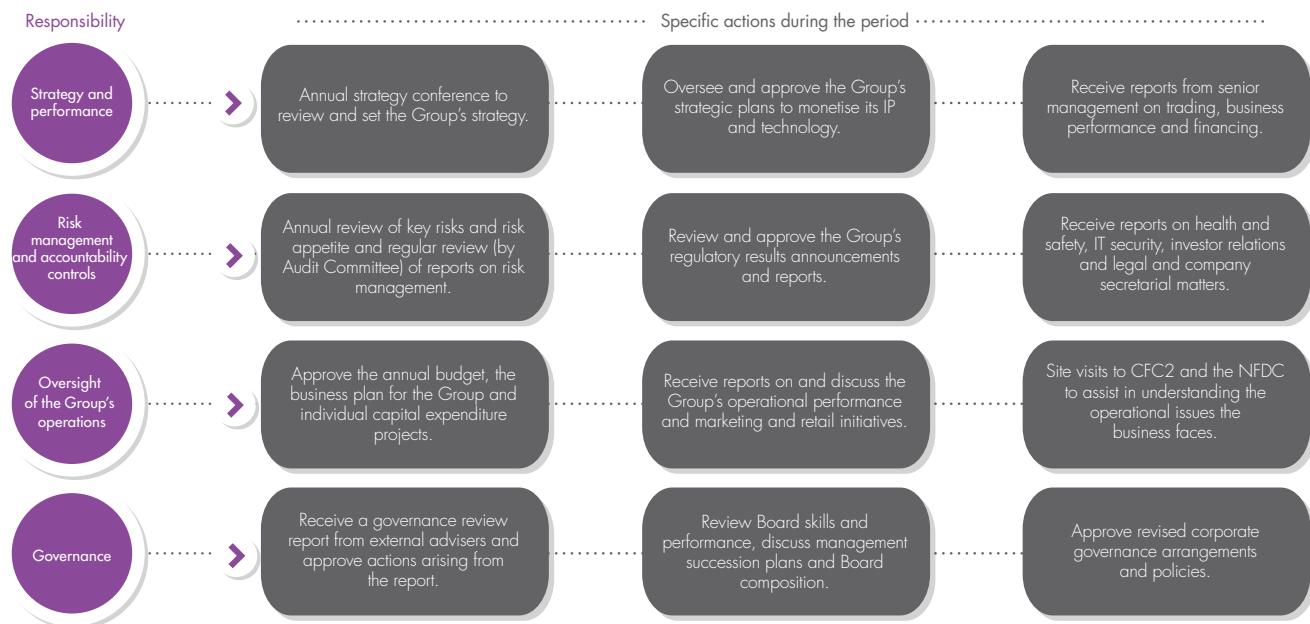
BOARD STRUCTURE

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.



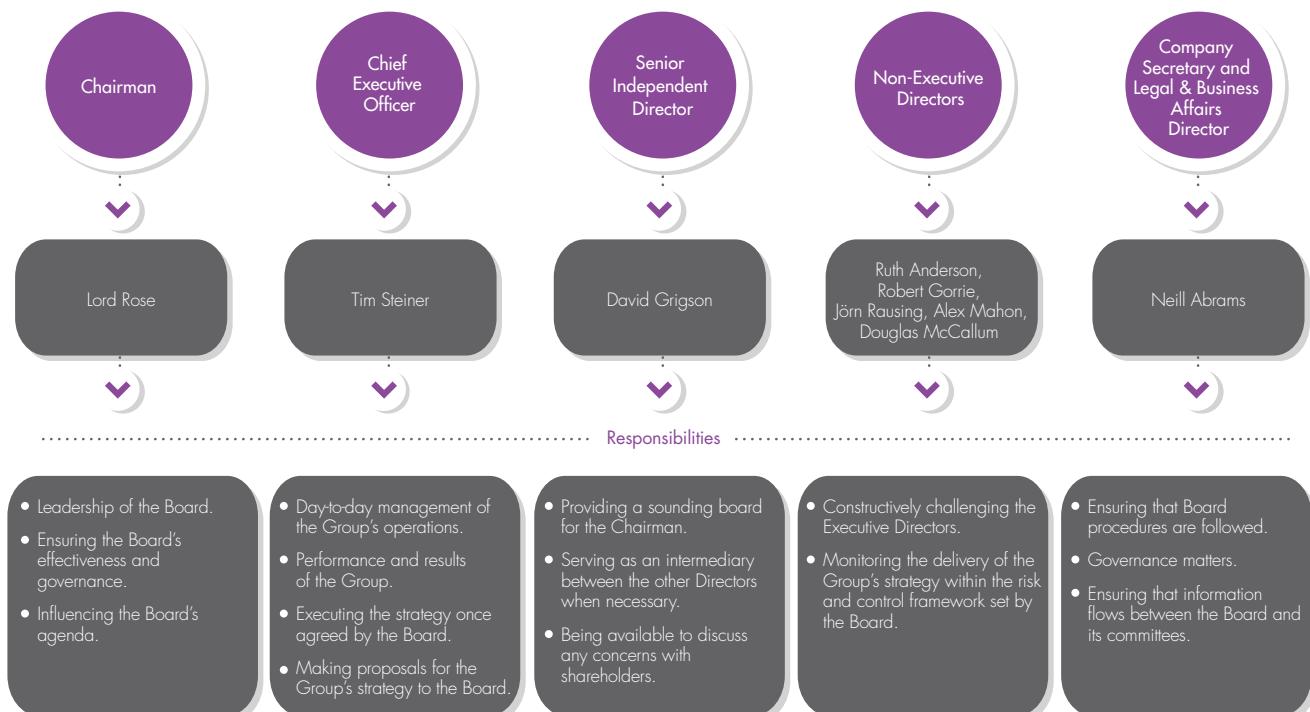
BOARD RESPONSIBILITIES

The Board is collectively responsible for the long-term success of the Company. Subject to the Articles and the Companies Act, the business of the Company is managed by the Board who may exercise all of the powers of the Company. The Board's main responsibilities and the key actions carried out during the period are set out below. The Board delegates certain matters to the Board committees, and delegates the detailed implementation of matters approved by the Board and the day-to-day operational aspects of the business to the Executive Directors.



BOARD ROLES

The names and details of the current (as at the date of this Annual Report) Directors on the Board are set out in the Board of Directors section on pages 62 to 63. As at the date of this Annual Report, the Board comprises 11 members, including the Chairman, four Executive Directors and six Non-Executive Directors. Some of the key responsibilities are summarised below.



STATEMENT OF CORPORATE GOVERNANCE

continued

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.

BOARD COMMITTEES

Certain aspects of the Board's responsibilities have been delegated to committees to assist the Board in various areas. The chairman of each committee provides a report or update of each meeting of the respective committee to the Board at the subsequent Board meeting.

Committee	Role and terms of reference	Membership required under the terms of reference	Minimum number of meetings per year	Committee report on pages
Audit	<p>Reviews and reports to the Board on the Group's financial reporting, internal control and risk management systems, the independence and effectiveness of the external auditors and the effectiveness of the internal audit function.</p> <p>Makes recommendations to the Board for a resolution to be put to shareholders of the Company in relation to the appointment and remuneration of the external auditors.</p>	<p>At least three members.</p> <p>All members should be independent Non-Executive Directors.</p>	Three	74 – 79
Remuneration	<p>Determines the remuneration, bonuses, long-term incentive arrangements, contract terms and other benefits in respect of the Executive Directors, the Chairman and the Company Secretary.</p> <p>Monitors the level and structure of remuneration for senior management.</p>	<p>At least three members.</p> <p>All members should be independent Non-Executive Directors.</p>	Two	92 – 96
Nomination	<p>Undertakes an annual review of succession planning and ensures that the membership and composition of the Board, including the balance of skills, remain appropriate.</p> <p>Makes recommendations for the membership of the Board, the Audit Committee and the Remuneration Committee.</p>	<p>At least three members.</p> <p>All members should be Non-Executive Directors with a majority of independent Non-Executive Directors.</p>	Two	80 – 81

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

OTHER COMMITTEES

Certain detailed aspects of the Board's responsibilities are delegated, in addition to the Executive Directors, to appropriate management-led committees, whose roles are set out below.

Committee	Role
Management Committee	Implementation of the day-to-day operational aspects of the business. Monitoring the implementation of certain significant and cross-divisional projects.
Risk Committee	Overseeing risk control processes and risk analysis as part of normal business decision making.
Information Security Committee	Monitoring the Group's IT security measures.
Treasury Committee	Overseeing the treasury policy concerning the Group's cash and deposits, investments, foreign exchange and applicable interest rates.

BOARD ATTENDANCE

The attendance record of the Directors at scheduled Board meetings during the period is set out in the below table. The Board scheduled ten meetings during the period and four ad hoc meetings and conference calls were also convened to deal with specific matters which required attention between scheduled meetings. 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.

	Board of Directors	
	Actual	Possible
Executive Directors		
Tim Steiner	10	10
Duncan Tatton-Brown	10	10
Neill Abrams	10	10
Mark Richardson	10	10
Non-Executive Directors		
Lord Rose (Chairman)	10	10
David Grigson	9	10
Jörn Rausing	9	10
Ruth Anderson	10	10
Robert Gorrie	10	10
Douglas McCallum	8	10
Alex Mahon	10	10
Former Directors		
Jason Gissing	5	5

Note: Jason Gissing retired from the Board of the Company effective on 7 May 2014. Where a Director has not attended a Board or committee meeting, it was due to a conflicting prior commitment.

BOARD COMPOSITION

BOARD CHANGES

Jason Gissing, co-founder and Commercial Director, retired from the Board at the annual general meeting of the Company held on 7 May 2014.

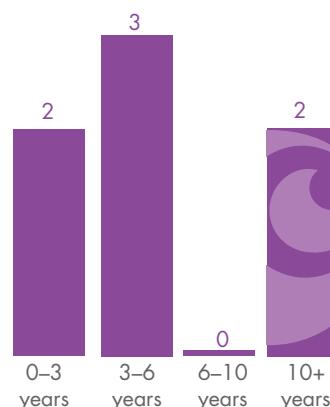
REVIEW OF BOARD COMPOSITION

The Board and the Nomination Committee reviewed and discussed the Board's and the Board committees' size and composition during the period, including in light of the retirement of Jason Gissing and various other considerations, notably diversity, tenure, independence and mix of skills and experience (detailed below). No changes to the Board's or Board committees' compositions were made during the period. The Nomination Committee report on page 81 provides further detail on the Board's review in early 2015 of Board composition and succession.

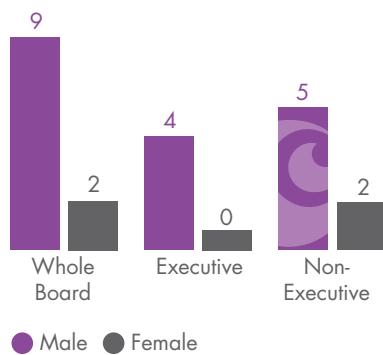
BOARD DIVERSITY AND TENURE

The Board seeks to ensure that it and its committees have an appropriate composition to discharge their duties 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 knowledge, skills and experience. 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. 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. The Nomination Committee monitors these objectives. The charts on this page illustrate the diversity of the Board in terms of length of tenure and gender. Since Admission, four Non-Executive Directors have been appointed to the Board, including two women.

LENGTH OF TENURE OF CHAIRMAN AND NON-EXECUTIVE DIRECTORS



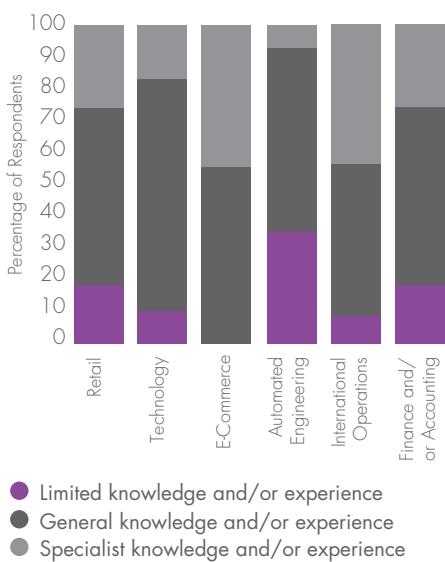
GENDER DIVERSITY



● Male ● Female

STATEMENT OF CORPORATE GOVERNANCE continued

LEVELS OF KNOWLEDGE AND EXPERIENCE ON THE BOARD



The Board is conscious of the fact that the number of women on the Board is currently below 20% of membership. Whilst 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 on the Board, the Board is committed to increasing the percentage of women on the Board and in senior positions in the Company, and diversity will remain an active consideration when changes to the Board's composition are contemplated. Any future 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 employees, see the Our People section on page 57.

The Board also takes into account the length of tenure of existing Directors when considering reappointment and succession planning. Both Jörn Rausing and Robert Gorrie have served as Directors for over 11 years and accordingly their reappointments to the Board are subject to particular scrutiny.

MIX OF SKILLS AND EXPERIENCE

During the period, the Board conducted a Board skills review as part of the Nomination Committee's work in reviewing Board composition. As part of this review, each Director assessed the current mix of skills and experience on the Board. The chart on the left shows some of the results of the review, indicating the main areas of knowledge and experience of existing Directors. Further details of the review process are set out in the Nomination Committee report on page 81.

INDEPENDENCE

The 2012 Code recommends that at least half of the board, excluding the chairman, should comprise non-executive directors determined by the Board to be independent. Since, excluding the Chairman, there are six Non-Executive Directors all determined by the Board to be independent and four Executive Directors, the Board complies with this recommendation. The chart on the left illustrates the current composition of the Board in respect of the independence of its members under the 2012 Code.

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

SCRUTINY BY THE BOARD

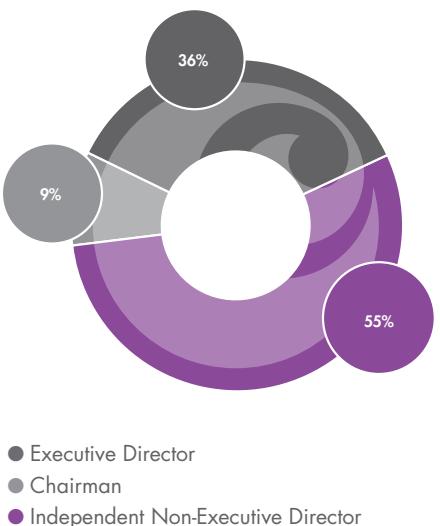
The Board has scrutinised the factors relevant to its determination of the independence of the Non-Executive Directors Jörn Rausing and Robert Gorrie, in particular.

JÖRN RAUSING

Jörn Rausing has been a Director for almost 12 years, although less than five of these have been in the era of the Company as a listed company. Jörn is a beneficiary of the Apple II Trust, a material (approximately 11%) shareholder of the Company. He is not a representative of the Apple II Trust, nor does the Apple II Trust have any contractual or other right to appoint a Director to the Board.

The Board considers his continued membership of the Board to be in the best interests of the Company and supports the principles of the 2012 Code. His significant business experience at Tetra Laval enhances the balance of skills and experience on the Board, and reinforces the long-term perspective of the Board's decision making.

BOARD INDEPENDENCE



The Board considers Jörn to be independent in character and judgement and does not believe that the size of the Apple II Trust's shareholding or the length of Jörn's tenure on the Board amounts to a relationship or circumstance which affects his judgement. Jörn has stood for re-election annually since 2011 and on each occasion has been re-elected.

ROBERT GORRIE

Robert Gorrie has been a Director for almost 15 years, but less than five of these have been in the era of the Company as a listed company. Robert acts as a non-executive chairman of the Ocado Council, an employee representative forum that was set up to provide primarily hourly paid employees with direct access to the Board. He received an additional £7,100 during the period for performing this role (2013: £11,000). Robert was employed by the Company until 2006, in an executive role as the Logistics Director.

The Board considers that Robert's knowledge of the Company's complex IT and logistics operations is of benefit to the Board in assisting it to formulate the Company's strategy. The Board does not consider the Ocado Council services to constitute a material business relationship with the Company, nor the additional remuneration to be material in the context of impacting Robert's judgement. Moreover, the Board considers his role on the Ocado Council to be a positive asset in the promotion of good governance, by providing a direct channel of communication between the Non-Executive Directors and employees and increasing the Board's understanding of the business. Robert has stood for re-election annually since 2011 and on each occasion has been re-elected.

EFFECTIVENESS

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.

The review for 2014 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. The focus of the review was to gauge the extent of perceived progress of the Board and the Board committees in the areas of development identified in the Board review from the previous year (which had been carried out by Independent Audit Limited). An assessment of each individual Director was also carried out using online questionnaires.

The findings of the review were evaluated by the Company Secretary and the Chairman, and a summary Board evaluation report was provided to the Board. The Board discussed the results of the review, which indicated that significant progress had been made in almost all areas of development that had been identified in the previous external review. The Board had implemented a number of changes, such as allocating more appropriate Board meeting time to strategic and risk discussions (rather than detailed operational performance) to reflect the changing focus of the business, and implementing the recommendations from KPMG's governance review (details of the governance review are set out in the Audit Committee report on page 77). Each chairman of the Board committees separately discussed the Board review as it pertained to their committee. The Chairman separately reviewed the results of the individual Director performance evaluations.

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

DIRECTOR ELECTION

Each Director is required under the Articles to retire at every annual general meeting (each Director may offer himself or herself for reappointment by the members at such meeting). At the last annual general meeting on 7 May 2014 all the then-current Directors other than Jason Gissing stood for reappointment, and were duly elected with a range of 89% to 99% of votes cast by shareholders in favour of reappointment.

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 reappointed. 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 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 in this Statement of corporate governance on page 72) during the period).

The rules that the Company has about the appointment and replacement of Directors are described in the Directors' report on page 83.

STATEMENT OF CORPORATE GOVERNANCE continued

BOARD INDUCTION AND PROFESSIONAL DEVELOPMENT

The Chairman and the Company Secretary are responsible for preparing and coordinating an induction programme when new Directors are appointed to the Board (although there were no appointments in the period).

The Board and committees receive training including in specialist areas. Training is typically arranged by the Company Secretary in consultation with the Chairman. During the period, the Company Secretary arranged training led by external legal advisers on insider dealing and director duties, which served as a periodic reminder of director responsibilities and an update on developments in the market abuse and inside information regime. The members of the Remuneration Committee received updates from the Remuneration Committee's remuneration advisers, Deloitte LLP, including on the new remuneration reporting market practices. The members of the Audit Committee receive training from the Company's auditors, PwC, from time to time. Members of the Audit Committee receive written technical updates from PwC to keep them abreast of the latest accounting, auditing, tax and reporting developments.

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.

EXTERNAL BOARD APPOINTMENTS AND CONFLICTS

There have been a number of changes to the Directors' external appointments as set out in the table below. The Chairman and the Board are kept informed by each Director of any proposed external appointments or other significant commitments as they arise. Each Director's biographical details and significant time commitments outside of the Company are set out in the Board of Directors section on pages 62 to 63.

Director	Change in commitment	Effective date of change
Lord Rose	Resigned as Non-Executive Director of Land Securities Group plc	January 2014
Ruth Anderson	Appointed Non-Executive Director of Coats plc	January 2014
	Appointed Non-Executive Director of Guinness Peat Group plc	April 2014
Duncan Tatton-Brown	Resigned as Non-Executive Director of Rentokil Initial plc	May 2014
	Appointed Non-Executive Director of Zoopla Property Group plc	May 2014

The Board noted that the impact of Lord Rose's resignation from the Board of Land Securities Group plc is that Lord Rose has fewer significant external commitments, and is able to dedicate more time to working with the Board.

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 a 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. No Director has declared to the Company any actual or potential conflicts of interest between any of his or her duties to the Company and his or her private interests and/or other duties, except in the case of the Executive Directors, each of whom holds the position of Director of the Company and Director of a number of Group subsidiary companies.

ENGAGEMENT WITH SHAREHOLDERS

INVESTOR RELATIONS

The Company keeps shareholders informed of its strategy and progress. The Company regularly meets with its large investors and institutional shareholders who, along with analysts, are invited to presentations by the Company after the announcement of the Company's results. The Company conducts a bi-annual investor roadshow and also addresses current and prospective shareholders at various investment conferences, both in the UK and abroad. The Board regularly receives feedback from the Company's brokers and the Executive Directors on the views of major shareholders and the investor relations programme and also receives reports at each Board meeting on the main changes to the composition of the Company's share register.

Lord Rose, the Chairman, and David Grigson, the Senior Independent Director, are available to the Company's shareholders for discussions. The Chairman, the Senior Independent Director and the chairman of the Remuneration Committee met with some of the Company's shareholders during the period to discuss various matters including corporate governance and executive remuneration.

All shareholders can access this Annual Report, trading statements, investor presentations and regular announcements on the Company's corporate website. All shareholders can choose to receive an Annual Report in paper or electronic form.

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 the documents and other information concerning the Company on its corporate website.

The Directors take responsibility for preparing this Annual Report and make a statement to shareholders to this effect. The statement of Directors' responsibility on page 88 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, which involve the Audit Committee, enable them to ensure that the information presented in this Annual Report complies with the disclosure requirements including 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 half-year report, trading statements and other financial reporting.

The Company's internal processes in the preparation and review of this Annual Report (and other financial reporting) include (but are not limited to): (1) review of and feedback on iterations of the Annual Report by the Executive Directors and the full Board; (2) focused review of specific sections of the Annual Report by the relevant Board committees; (3) Audit Committee review of a management report on accounting estimates and judgements, 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 page 75); (4) the Audit Committee regularly reporting to the Board on the discharge of its responsibilities; (5) input from both internal and external legal advisers and other advisers to cover relevant regulatory and governance obligations; (6) discussions between contributors and management to identify relevant and material information; (7) detailed debates and discussions concerning the principal risks and uncertainties; (8) review and approval by the external auditors; and (9) separate approval by the Director of Legal & Business Affairs, the Board committees and the Board.

The statement by the external auditor on its reporting responsibilities is set out in the Independent Auditors' report on pages 132 to 138.

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 11 am on 15 May 2015 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 www.ocadoshares.com or by using the proxy card which will be sent with the Notice of Meeting (if sent by post) or can be downloaded from the Company's corporate website.

At last year's annual general meeting, all resolutions were passed with votes in support ranging from 73.24% to 100%.

The Company's Statement of corporate governance (which is set out on pages 66 to 73) is approved by the Board and signed on its behalf by

Lord Rose
Chairman

Neill Abrams
Legal & Business Affairs Director
and Company Secretary

Ocado Group plc
Registered in England and Wales,
number 07098618
3 February 2015



AUDIT COMMITTEE REPORT

Ruth Anderson
Audit Committee Chairman



"A significant change in the Group's internal control framework was the appointment to the newly created role of Head of Internal Audit & Risk."

DEAR SHAREHOLDER,

This Audit Committee report provides an overview of the work we carried out during the period, including the significant issues considered in relation to the financial statements and how we have assessed the effectiveness of the external auditors.

We have a responsibility to oversee the Group's internal control and risk management systems. A significant change in the Group's internal control framework during the year was the appointment to the newly created role of Head of Internal Audit & Risk to provide additional assurance for the Group. Overseeing the appointment and establishment of this function, including reviewing its charter, strategy and work areas, was a key achievement for us this year. We will continue to monitor and review the effectiveness of the Group's internal control and risk management systems with the support of this new function.

This report also outlines the significant accounting matters which received our particular focus during the year. It seeks to explain why the issues are considered significant and together with the external auditors' report provides additional context for understanding the Group's accounting policies and financial statements for the period.

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

Ruth Anderson
Audit Committee Chairman
3 February 2015



View more information about internal audit on page 77



View more information online at
www.ocadogroup.com

MEMBERSHIP AND MEETINGS

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

Ruth Anderson (Chairman)	David Grigson	Alex Mahon
		
Audit Committee member since 9 March 2010	Audit Committee member since 9 March 2010	Audit Committee member since 1 June 2012
Number of meetings 	Number of meetings 	Number of meetings 
Number attended 	Number attended 	Number attended 

Two members of the Audit Committee (Ruth Anderson and David Grigson) are considered by the Board to have competence in accounting and/or auditing and recent and relevant financial experience. Both have professional qualifications with the Institute of Chartered Accountants of England and Wales. The biography of each member of the Audit Committee is set out in the Board of Directors section on pages 62 to 63.

Regular attendees at the Audit Committee meetings include the Chief Financial Officer, the Legal & Business Affairs Director and Company Secretary, the Director of Finance and Risk, the Deputy Company Secretary, the Head of Internal Audit & Risk and the external auditors. Other attendees who attend as required include the Chief Executive Officer, the Chairman, a number of senior members of the finance department and other advisers to the Company.

KEY AREAS OF FOCUS FOR THE AUDIT COMMITTEE

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

Financial statements and reporting: The Audit Committee monitored the financial reporting processes for the Group, which included reviewing reports from, and discussing these with, the external auditors, PwC. The Board and the Audit Committee have reviewed this Annual Report, as well as the half-year report and accounts. As part of the year-end reporting process the Audit Committee reviewed a management report on accounting estimates and judgements, external auditors' reports on internal controls, accounting and reporting matters and a management representation letter concerning accounting and reporting matters.

Monitoring the integrity of the financial statements of the Company and the financial reporting process and reviewing the significant accounting issues are key roles of the Audit Committee in assisting the Board to ensure 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. For information concerning the process followed by the Company in preparing this Annual Report see page 73 of the Statement of corporate governance.

Accounting judgements and issues: The Audit Committee reviewed and discussed reports from management on significant accounting issues and estimates in relation to this Annual Report, which also included the external auditors' views. The Audit Committee sought to assess the reasonableness of the assumptions and judgements underlying the significant accounting issues.

The Audit Committee considers that the Company has adopted appropriate accounting policies and made appropriate estimates and judgements. The table overleaf summarises those significant accounting issues which received particular focus from the Audit Committee in the period and how the issues were addressed.

AUDIT COMMITTEE REPORT continued

Area	Issue and nature of judgement	Factors and reasons considered and conclusion	Impact on financial information
Commercial income	Accounting for the quantum and timing of amounts due from suppliers in relation to promotional activity and volume related sales targets is material and involves an element of judgement in determining the amounts and timing of income to be recognised.	See detailed explanation below.	See detailed explanation below.
Capitalisation of internally generated costs	The capitalisation of internally generated costs is material and involves management judgements as to whether the costs meet the criteria in accounting standards for capitalisation.	The criteria for identification of projects which may be treated as intangible assets and the process to capture the costs of these projects were discussed. Details of material projects which are being capitalised along with the basis for capitalisation were presented to and reviewed by the Audit Committee.	The value of intangible non-current assets created during 2014 is included in notes to the consolidated financial statements on page 155.
Accounting for share-based payments	Multiple share schemes with differing methods of settlement and vesting criteria require management judgement, including transfer restrictions, share price volatility and leaver numbers.	Details of the accounting treatments for new share-based payment arrangements were considered. The methodology and key assumptions for each arrangement were discussed and agreed.	Charges for share-based payments are included in operating expenses. The methodology and key assumptions are set out in notes to the consolidated financial statements on pages 174 to 183.
Deferred tax asset	Estimates used to support the amount of future profitability and recognised deferred tax asset require management judgement.	The basis of estimates of future taxable profits of the Group and the process used to calculate the deferred tax asset were reviewed.	Details of the deferred tax asset are included in notes to the consolidated financial statements on page 152.

Commercial income remains a key area of focus for the Audit Committee and is an area where, this year, users of the financial statements may expect to receive more detailed information. This income comes from three major sources which, in diminishing order of size, are promotional support; media income; and volume rebates.

- Promotional support — This represents over half of all commercial income. The Group negotiates funding with many of its suppliers to support specific promotions on selected items. The funding is typically based on an agreed sum per item sold on promotion for a period. There is limited judgement or estimation involved in recording the income received, which is collected in a timely manner throughout the period. This is included within cost of sales.
- Media income — Income is received from suppliers and other third parties for advertising services provided on the Webshop. The income received is recognised in other income over the period that the services are provided so limited judgement is required.
- Volume rebates — the smallest proportion of commercial income comes from annual agreements with many suppliers for volume rebates based on agreed targets for the Ocado and Waitrose businesses. The majority of these agreements are negotiated on behalf of the Group by its supply partner, Waitrose, and the contract period typically spans across the financial year end. Where Waitrose negotiates the agreement it provides the Group with an estimate of the expected funds due to Ocado. Final confirmation of any amounts due is usually received three to six months after the period end. The Audit Committee reviewed the judgements made by management based on the estimates provided by Waitrose. This is included within cost of sales.

The accounting treatment of all significant issues and judgements was subject to review by the external auditors. The above list is not a complete list of all accounting issues and estimates but highlights the most significant ones in the opinion of the Audit Committee. For further information on the Company's critical accounting estimates and assumptions refer to the notes to the consolidated financial statements on page 146. For a discussion of the areas of particular audit focus by the external auditors, refer to pages 132 to 136 of the Independent Auditors' report.

Governance review: During the period, KPMG LLP, an external consultant, completed a broad-ranging review of the effectiveness of the Group's governance and risk management framework. The purpose of the review was to assess the Group's governance framework against market practice for listed companies in the context of a business that is growing rapidly and that has plans for future expansion. The Company has taken steps to implement the recommendations from KPMG and has a timetable for completing them, including formalising the Company's approach to risk management and formalising the Group-wide policy framework. It has also embedded a form of independent assurance, via the newly established internal audit and risk function (noted below).

Internal audit: The Group established an internal audit function during the period, with the appointment of a Head of Internal Audit & Risk in July 2014. Internal audit provides independent and objective assurance and advisory services designed to add value and improve the operations of the Group. Its scope encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the Group's governance, risk management and internal control processes in relation to the Group's defined goals and objectives. The Audit Committee approved the internal audit function's charter, which sets out its role, scope, accountability and authority.

Risk review: An annual review of the effectiveness of risk management and internal control processes was carried out by the Audit Committee. The Audit Committee focused its review on the Company's risk mitigation and controls and the strategic and organisation-wide risks facing the Group.

The Audit Committee also oversaw an information technology risk review during the period, focusing on the key risks in connection with the Group's technology and the processes used to identify those risks. The Audit Committee reviewed reports from management on key risk programmes concerning key technology projects including its new technology platform.

The Group's risk management and internal control systems, including financial controls, are described in more detail in the How We Manage Our Risks section on page 33, where the Audit Committee's work in this area is highlighted.

Going concern assessment: The Audit Committee and the Board reviewed the going concern basis for preparing the Group's consolidated financial statements, including in particular the assumptions underlying the going concern statement and the period of assessment. The Audit Committee's assessment was based on reports by management and the external auditors and took note of the principal risks and uncertainties, the improved financial performance of the Group, the existing financial position, the Group's financial resources including the new unutilised revolving credit facility, and the expectations for future performance and capital expenditure. For further information concerning going concern see the notes to the consolidated financial statements on page 146, the Independent Auditors' report on page 137 and the Directors' report on page 87. Although not applicable to the going concern assessment for the period, the Audit Committee discussed the new 2014 Code requirements for reporting on the Group's longer-term viability. Management will report to the Audit Committee in 2015 on its review under the expanded going concern assessment.

Other matters considered by the Audit Committee: The Audit Committee also considered the Company's tax strategy and concluded that management's low risk approach to tax management remained appropriate. The Audit Committee discussed the various means by which the Group could provide the necessary tax expertise to cater for the growth of the business in the future. The Audit Committee considered the Group's approach to segmental reporting and concluded that the approach of reporting as one operating segment remains appropriate given the Group continues to be managed as one segment.

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

Annual review: In addition to its annual performance evaluation, discussed in the Statement of corporate governance on page 71, the Audit Committee carried out a review of its terms of reference. The terms were updated to reflect the Audit Committee's changed responsibilities as a result of amendments to the 2014 Code.

AUDIT COMMITTEE REPORT continued

ASSESSING THE EFFECTIVENESS OF THE EXTERNAL AUDIT PROCESS

The Audit Committee places great importance on ensuring that there are high standards of quality and effectiveness in the external audit carried out by PwC. Audit quality is reviewed by the Audit Committee throughout the year and includes reviewing and approving the annual audit plan to ensure that it is consistent with the scope of the audit engagement. In reviewing the audit plan, the Audit Committee discussed the significant and elevated risk areas identified by PwC 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 Auditors' report on pages 132 to 136). The Audit Committee also considered the audit scope and materiality threshold.

The Audit Committee met with PwC at various stages during the audit process, including without management present, to discuss their remit and any issues arising from the audit. The Audit Committee concluded that the effectiveness of the external audit process remains strong.

AUDITOR REAPPOINTMENT OVERVIEW

The Audit Committee considered the reappointment of PwC. This review took into account the factors below.

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

Independence and objectivity: The Audit Committee considered the safeguards in place to protect the external auditors' independence. PwC follows the Auditing Practices Board's standards and its own ethical guidelines, and 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 auditor's independence and concluded that PwC remained independent and objective in relation to the audit.

Non-audit work carried out by the external auditors: To help protect auditor objectivity and independence, the provision of any non-audit services provided by the external auditors requires prior approval, as set out in the table below.

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

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. The 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 significant non-audit work undertaken by PwC during the period included assurance work on the Group's carbon disclosures. The total of non-audit fees and audit fees paid to PwC during the period is set out in Note 2.5 of the consolidated financial statements on page 149.

The Audit Committee received a regular report from management regarding the extent of non-audit services performed by PwC. PwC also provided a report to the Audit Committee on the specific safeguards put in place for each piece of non-audit work confirming that it was satisfied that neither the extent of the non-audit services provided nor the size of the fees charged had any impact on its independence as statutory auditors. The Audit Committee was satisfied that the quantum of the non-audit fees relative to the audit fees (being 14.3%) of the audit fees together with the other measures taken by the Company and the auditors meant that the auditors' independence from the Group was not compromised.

The Audit Committee continues to monitor the proposed audit reform regulations including tighter restrictions on non-audit services provided by an auditor to an audit client and an overall non-audit fee size limit, as well as mandated audit committee duties regarding auditor selection and audit process. As noted below, the Audit Committee will review its auditor appointment policy in 2015 with these proposed requirements in mind.

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 £244,000 (2013: £183,000)) was appropriate and that an effective audit could be conducted for such a fee. The Audit Committee compared the proposed fees with the prior year's fees in drawing this conclusion, noting that the 33% increase in fees was mostly attributable to the increased complexity of the Group following the Morrisons agreement and Group reorganisation. The existing authority for the Directors (including 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 2014. At the annual general meeting in 2014, 98.07% of votes cast by shareholders were in favour of granting the Directors this authority.

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

The Audit Committee is cognisant of the current and emerging requirements governing the appointment of external auditors, notably the re-tendering requirements of the 2012 Code and the Competition and Markets Authority, together with the mandatory firm rotation regulations from the European Commission. The regulatory guidance includes transitional arrangements which, among other matters, address the length of time for which an auditor has been incumbent at the date the rules come into force. In the case of the Company, as a listed company since 2010, it is not entirely clear how the rules in rotation will apply, but it is understood the proposed rules would require a tender process by 2020 and mandatory audit firm rotation by 2023. The Audit Committee will review its auditor appointment policy in 2015 with these proposed re-tendering and rotation requirements in mind and will make a decision on audit re-tender in due course.

Recommendation to reappoint: Following its consideration, the Audit Committee recommended to the Board the reappointment of PwC as external auditors. The Board has accepted this recommendation and a resolution for its reappointment for a further year will be put to the shareholders at the AGM. At the annual general meeting in 2014, 98.10% of votes cast by shareholders were in favour of reappointing PwC as external auditors.

NOMINATION COMMITTEE REPORT

David Grigson
Nomination Committee Chairman



"During the year, the Nomination Committee discussed succession plans, reviewed Board composition and carried out a review of the Board's skills and experience."

DEAR SHAREHOLDER,

After a number of busy years with various changes to the Board composition, we had relatively fewer activities during the year. Following Jason Gissing's departure at the annual general meeting in 2014, the Nomination Committee discussed succession plans, reviewed Board composition and carried out a review of the Board skills and experience. Since period end, the Nomination Committee has given further consideration to Board composition and the formulation of a revised succession plan for the Board. Further details on the Nomination Committee's work are set out in the following report.

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

David Grigson
Chairman of the Nomination Committee
3 February 2015



View more information about the skills review on pages 70 & 81



View more information online at www.ocadogroup.com

MEMBERSHIP AND MEETINGS

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



The appointment of Douglas McCallum was renewed for a further three-year period from October 2014. The biography of each member of the Nomination Committee is set out in the Board of Directors section on pages 62 to 63.

Other attendees at the Nomination Committee meetings include the Chief Executive Officer, the Director of Human Resources and the Deputy Company Secretary.

PRINCIPAL ACTIVITIES OF THE NOMINATION COMMITTEE DURING 2014

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

Succession plans: The Nomination Committee is responsible for overseeing the process of succession and management development for the Executive Directors and the next layer of management, the Management Committee. The Chief Executive Officer and Director of Human Resources reported to the Nomination Committee the progress made on the succession plans, including restructuring reporting lines for senior management in light of Jason Gissing's retirement from the Board. The Nomination Committee was assured that appropriate succession and development plans are in place.

Reviewing Board composition: The Nomination Committee considered the Board's size and composition, including in the context of Jason Gissing's retirement from the Board. It was decided that there would not be an appointment to the Board role vacated by Jason Gissing, and that any future executive appointments would be dependent on the growth and direction of the business.

The Nomination Committee review of Board composition also took into account various considerations including diversity, Director tenure, independence and mix of Board knowledge, skills and experience. For an explanation of these considerations in relation to the current Board see the Statement of corporate governance on page 69.

The Nomination Committee recommended that the Board undertake a review of the current skills and experience of the Board. The review was intended to help the Board ensure that it has the right mix of skills, experience and backgrounds in the future to support the Company's strategic objectives. This review was carried out by way of self-assessment questionnaires which were prepared by the Company Secretary. A summary of the findings of the review was presented and discussed by the Board. The skills review will form part of the discussions of the Nomination Committee around the necessary skills and experience of future appointees to the Board as existing Non-Executive Directors retire from the Board.

Since the period end the Nomination Committee discussed revised succession plans in anticipation of Board changes in future. Further information on the results of the skills review is set out in the Statement of corporate governance on page 70.

Diversity: The Nomination Committee is also responsible for reviewing the composition of the Board, to ensure that its membership represents a mix of backgrounds and experience that will enhance the quality of its deliberations and decisions. For further information on Board diversity and long-serving Directors refer to the Statement of corporate governance on page 69 and on employee diversity refer to page 57 of the Our People section.

Annual review: In addition to its annual performance evaluation, discussed in the Statement of corporate governance on page 71, 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.

DIRECTORS' REPORT

"The Directors are responsible for preparing the Annual Report, the Directors' remuneration report and the financial statements."



View more information about the Directors' responsibility statement on page 88



View more information online at www.ocadogroup.com

INTRODUCTION

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

INDEX OF DIRECTORS' REPORT DISCLOSURES

This Directors' report should be read in conjunction with the Strategic report (pages 2 to 59) which includes the Corporate responsibility report (pages 50 to 59), and the Statement of corporate governance

(defined in the index below as the "CG Statement") (pages 66 to 73), 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 (*).

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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 value over the longer term and the strategy for delivering the objectives of the Group. The Companies Act requires that the Strategic report must: (1) contain a fair review of the Group's business and contain a description of the principal risks and uncertainties facing the Group; and (2) 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 2 to 59.

The Company has chosen to include some of the information required to be disclosed in the Directors' report within the Strategic report (pages 2 to 59), 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 82.

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 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 66 to 73 and the Directors' responsibility statement on page 88.

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 reappointment.

Retirement of Directors: At every annual general meeting of the Company, each Director shall retire from office and may offer himself/herself for reappointment by the members.

Removal of Directors by special resolution: The Company may by special resolution remove any Director before the expiration of his/her 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 page 69.

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.

DIRECTORS' REPORT continued

SHARE CAPITAL

The Company's authorised and issued ordinary share capital as at 30 November 2014 comprised a single class of ordinary shares. The shares have a nominal value of 2 pence each. The ISIN of the shares is GB00B3MBS747.

As at 20 January 2015, being the latest practicable date prior to publication of this report, the Company's issued share capital consisted of 621,005,986 issued ordinary shares, compared with 619,019,232 issued ordinary shares per the annual report for 2013. Details of movements in the Company's issued share capital can be found in Note 4.11 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 4.12 to the consolidated financial statements.

RIGHTS ATTACHING TO SHARES

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

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

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

No shareholder holds shares in the Company which carry special rights with regard to control of the Company. There are no shares relating to an employee share scheme which have rights with regard to control of the Company that are not exercisable directly and solely by the employees, other than in the case of the 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, 34,810,561 are held by Greenwood Nominees Limited on behalf of Appleby Trust (Jersey) Limited, the independent company which is the trustee of Ocado's employee benefit trust (the "EBT Trustee"). The EBT Trustee has waived its right to exercise its voting rights in respect of these 34,810,561 ordinary shares, although it may at the request of a participant vote in respect of 33,956,896 ordinary shares which have vested under the JSOS and remain in the trust at period end. The total of 34,810,561 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 34,810,561 ordinary shares held by the EBT Trustee. Note 4.12(b) 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, the Company is not aware of any agreements existing at the end of the period between holders of securities that may result in restrictions on the transfer of securities or that may result in restrictions on voting rights.

POWERS FOR THE COMPANY TO ISSUE OR BUY BACK ITS SHARES

The Company was authorised by shareholders on 7 May 2014, 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.

The Directors were granted authority at the previous annual general meeting to allot shares in the Company. That authority will apply until the conclusion of the AGM. At the AGM, shareholders will be asked to grant an authority to allot shares in the Company: (A) up to one-third of the issued share capital; and (B) comprising equity securities up to two-thirds of the issued share capital but after deducting any allotments or grants made under (A) above in connection with an offer by way of a rights issue, such authorities to apply until the end of the next annual general meeting or, if earlier, until the close of business on 15 August 2016.

A special resolution will also be proposed to renew the Directors' powers to disapply pre-emption rights. It would give the Directors the authority to allot ordinary shares for cash without first offering them to existing shareholders in proportion to their existing shareholdings. This authority would be, similar to last year, limited to allotments in connection with pre-emptive offers up to an aggregate nominal amount of approximately 5% of the issued ordinary share capital of the Company.

During the period, the Directors used their power to issue shares under the authorities provided by the shareholder resolution passed on 7 May 2014, to satisfy options and awards under the Company's option and incentive schemes and one-off incentive arrangements.

SIGNIFICANT SHAREHOLDERS

During the period the Company has received notifications, in accordance with Disclosure and Transparency Rule 5.1.2R, of interests in 3% or more of the voting rights attaching to the Company's issued share capital, as set out in the table below:

	Number of ordinary shares	Percentage of issued share capital	Nature of holding
The London and Amsterdam Trust Company Limited	47,961,383	12.08%	Direct/Indirect
The Capital Group Companies, Inc.	56,003,232	9.03%	Indirect
Lansdowne Partners	44,505,945	7.10%	Indirect
Generation Investment Management LLP	31,043,243	5.01%	Indirect
Odey Asset Management LLP	29,113,291	4.98%	Direct & CFD
The Nomad Investment Partnership L.P.	–	Below 3%	Direct

These figures represent the number of shares and percentage held as at the date of notification to the Company.

No changes have been disclosed in accordance with Disclosure and Transparency Rule 5.1.2R in the period between 1 December 2014 and 20 January 2015 (being not more than one month prior to the date of the Notice of Meeting), except as set out in the table below:

	Number of ordinary shares	Percentage of issued share capital	Nature of holding
The Capital Group Companies, Inc.	68,548,308	11.04%	Indirect
Norges Bank	20,069,631	3.23%	Direct

These figures represent the number of shares and percentage held as at the date of notification to the Company.

DIRECTORS' REPORT continued

SIGNIFICANT RELATED PARTY AGREEMENTS

There were no contracts of significance during the period between the Company or any Group company and either (1) a Director of the Company or (2) a controlling shareholder of the Company.

CHANGE OF CONTROL

The Company does not have any agreements with any Director or employee that would provide compensation for loss of office or employment resulting from a takeover bid except that it should be noted that: (i) provisions of the Company's share schemes may cause options and shares granted to employees under such schemes to vest on a takeover; and (ii) certain members of senior management (not including the Directors) who were employed prior to 2010 are entitled to a payment contingent on a change of control of the Company or merger of the Company (irrespective of loss of employment) as set out in his or her respective employment contract. For further information on the change of control provisions in the Company's share schemes refer to the Directors' remuneration report on page 109.

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: If certain competitors of Morrisons acquire 50% or more of the voting rights in the Company's shares or take control of the composition of the Company's Board, or acquire all or substantially all of the Group's business and undertakings, then Morrisons will be entitled to give notice to terminate the operating agreement (a "Termination Event").

If such a Termination Event occurs prior to the date on which capital is intended to be expended on an agreed new CFC ("Capital Commitment Date"), then:

- Morrisons would be entitled to give not less than four (but not more than four and a half) years' notice to terminate and the Company's right to be the exclusive supplier of the services would fall away.
- The Company shall purchase Morrisons' shares in MHE JV Co Limited (the owner of the automation in CFC2) and may be required to repurchase CFC2.

If such a Termination Event occurs after the Capital Commitment Date, then:

- The Company would continue to be obliged to provide the services under the operating agreement, but the Company's right to be the exclusive supplier of the services would fall away and Morrisons would be released from its annual sales target.
- Further, certain of the fees payable by Morrisons would scale back to reflect Morrisons.com's actual use of the services, but would not (except if the Company had procured a third party to acquire Morrisons' capacity of all relevant CFCs) afford either party a termination right prior to the end of the term.

Revolving credit facility agreement: The Group has an unsecured £100 million revolving credit facility with Barclays Bank PLC, HSBC Bank plc, The Royal Bank of Scotland plc and Santander UK plc 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.

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.

RESEARCH AND DEVELOPMENT ACTIVITIES

The Group has dedicated in-house software, logistics and engineering design and development teams with primary focus on IT and improvements to the CFCs and the automation equipment used in them. Costs relating to the development of computer software are capitalised if it is probable that the future economic benefits that are attributable to the asset will accrue to the entity and the costs can be measured reliably. The Company is carrying out a number of IT and engineering design and build projects with the intention of developing new and improved automation equipment and processes for its warehouses. Further information is contained in the Strategic report on pages 24 to 29.

FUTURE DEVELOPMENTS OF THE BUSINESS

The Group's likely future developments including its strategy are described in the Strategic report on pages 2 to 59.

PROFIT/(LOSS) AND DIVIDENDS

The Group's results for the period are set out in the consolidated income statement on page 139. The Group's profit/(loss) before tax for the period amounted to £7.2 million (2013: loss of £12.5 million).

The Directors do not propose to pay a dividend for the period (2013: nil).

POST-BALANCE SHEET EVENTS

There have been no material events after the balance sheet date of 30 November 2014 to the date of this report.

GOING CONCERN

Based on the Group's forecasts, the Directors are satisfied that the Company, and the Group as a whole, have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors considered it appropriate to adopt the going concern basis of accounting in the preparation of the financial statements.

There have been no material uncertainties identified which would cast significant doubt upon the Company's ability to continue using the going concern basis of accounting for the 12 months following the approval of this Annual Report.

In adopting the going concern basis for preparing the financial statements, the Directors have made appropriate enquiries and have considered the Group's cash flows, solvency and liquidity position and borrowing facilities (including the new unutilised £100 million revolving credit facility) and business activities as set out in the How We Manage Our Risks section on pages 32 to 33 and set out in the Group's financial statements on page 139, the Group's principal risks and uncertainties as set out on pages 34 to 35, the financial risks described in the notes to the consolidated financial statements on pages 144 to 187 and the Group's expectations for future performance and capital expenditure.

The statement has been prepared in accordance with Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009, published by the Financial Reporting Council in October 2009. The Company's going concern statement has been reviewed by the Company's auditors, PwC.

Further information on going concern is set out in the Statement of corporate governance on page 66.

INDEPENDENT AUDITORS

The Company's auditors, PwC, have indicated their willingness to continue their role as the Company's auditors. Resolutions concerning the reappointment of PwC as auditors of the Company and to authorise the Directors to determine their remuneration will be proposed at the AGM and set out in the Notice of Meeting. For further information on the reappointment of the auditors, refer to page 78 of the Statement of corporate governance.

DIRECTORS' REPORT continued

DISCLOSURE OF INFORMATION TO AUDITORS

In accordance with the Companies Act, each Director who held office at the date of the approval of this Directors' report (whose names and functions are listed in the Board of Directors section on pages 62 to 63 of this Annual Report) confirms that, so far as he or she is aware, there is no relevant audit information of which the Group's auditors are unaware, and that each Director has taken all of the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing 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 (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the result of the Company and the Group for that period. In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the Group's corporate website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that this Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's 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 62 to 63 of this Annual Report) confirms, to the best of his or her knowledge, that:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group; and
- the "management report" (as defined in the Directors' report on page 83) includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

FORWARD-LOOKING STATEMENTS

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

The Company's Directors' Report is approved by the Board and signed on its behalf by

Neill Abrams

Legal & Business Affairs Director and
Company Secretary

Ocado Group plc
Registered in England and Wales,
number 07098618
3 February 2015



"Our centralised fulfilment model enables us to carry a greater range than stores... we have now introduced additional dedicated 'department stores' for certain product categories."

WIDER RANGE





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[View more information on the Directors' remuneration in 2014 on page 111](#)



[View more information online at
www.ocadogroup.com](http://www.ocadogroup.com)

DIRECTORS' REMUNERATION REPORT

ANNUAL STATEMENT FROM THE REMUNERATION COMMITTEE CHAIRMAN

Douglas McCallum
Remuneration Committee Chairman



"One of our key roles is to ensure that the remuneration arrangements for the Executive Directors reward efforts that enhance the Company's performance and promote the long-term success of the Company."



View more information about the Directors' remuneration policy on pages 96 to 110



View more information online at www.ocadogroup.com

DEAR SHAREHOLDER,

On behalf of the Board, I am pleased to present the Directors' remuneration report for 2014.

Last year, the Remuneration Committee undertook an extensive review of the Company's remuneration policy for the Executive Directors, which resulted in a number of changes to executive remuneration. These changes received support from shareholders, both through the process of shareholder consultation and annual general meeting voting results. This support recognised our efforts to closely align the Executive Directors' incentives with the strategic growth objectives of the business. The Directors' remuneration policy was approved by shareholders at the annual general meeting which took place on 7 May 2014 and will continue in force until 2017. There are no proposals to amend the Directors' remuneration policy at the present time.

The Annual report on remuneration section of the Directors' remuneration report sets out the Directors' remuneration policy, how the policy was implemented in 2014, and how it is proposed to be applied in 2015.

KEY CHANGES TO EXECUTIVE DIRECTOR REMUNERATION

One of our key roles is to ensure that the remuneration arrangements for the Executive Directors reward efforts that enhance the Company's performance and promote the long-term success of the Company. We also need to ensure that the rewards received by the Executive Directors are proportionate to the levels of performance achieved. So we have to give full consideration to the Company's strategy, its performance and shareholders' interests when making decisions relating to the remuneration of the Executive Directors.

A new long-term incentive plan, known as the Growth Incentive Plan ("GIP"), was implemented after it received shareholder approval at the 2014 annual general meeting. The GIP is intended to reward outstanding growth in value of the Group relative to the FTSE 100 over five years.

Base salaries of the Executive Directors were reviewed and increased in line with employee salary increases. The base salary of the Chief Executive Officer was increased more significantly to reflect the substantial change in the size and complexity of the business since the transaction with Morrisons.

During the financial year, we undertook a review of the Executive Director Annual Incentive Plan ("AIP") structure and concluded that the financial measures of EBITDA and Gross sales remained aligned with the Company's strategy and should be retained for 2015 in order to encourage strong growth. The proportion allotted to individual objectives for the 2015 AIP has been increased from 20% to 30%, to reflect the increased importance of delivering key strategic objectives in 2015.

Following consultation with our shareholders and a review of the Long Term Incentive Plan ("LTIP"), the performance measures for the 2014 LTIP awards were changed from EBIT, to be equally weighted between earnings per share and Group Revenue. For the 2015 LTIP awards an additional financial target will be included to reward delivering the economic efficiency of the new proprietary infrastructure solution, which is intended to help promote the success of this important long-term strategic objective.

Our Share Incentive Plan ("SIP") was launched for all employees in August this year. All of the Executive Directors elected to participate in the SIP, alongside their existing participation in the Company's other HMRC-approved share schemes.

RELATIONSHIP BETWEEN PAY AND PERFORMANCE

We have, in accordance with the Directors' remuneration policy and the rules of the 2014 AIP, recommended an aggregate bonus payment of £912,415 under the plan for the period. This recommendation is based on the achievement of targets which are set out in more detail in the Annual report on remuneration on page 114. The Remuneration Committee believes that the level of bonus payment appropriately reflects the performance of the business and individual performance during the period, which saw strong trading for the Group in a very competitive market and good progress with the development of the Group's strategic objectives.

CHANGES TO NON-EXECUTIVE DIRECTOR REMUNERATION

The Non-Executive Directors' annual fees were increased for the first time since 2010 to ensure that their remuneration reflects the increased responsibility of the role. This change followed a comparative market review by the Executive Directors and the Chairman.

2014 CODE

We reviewed the existing remuneration arrangements and Directors' remuneration policy in light of the proposed changes under the 2014 Code. The Company is compliant with the new provisions of the 2014 Code in a number of areas including the requirements for clawback and malus provisions. Our response to the 2014 Code changes is set out in this report.

REMUNERATION DISCLOSURE

Each year, we review how shareholders voted on the remuneration report, together with any feedback received. We are focused on providing clear reporting on past remuneration and future policy, and we welcome your feedback.

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

Douglas McCallum

Remuneration Committee Chairman
3 February 2015



DIRECTORS' REMUNERATION REPORT continued

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:

Douglas McCallum (Chairman)	Ruth Anderson	David Grigson
		
Remuneration Committee member since 3 October 2011	Remuneration Committee member since 9 March 2010	Remuneration Committee member since 5 February 2013
Number of meetings 5	Number of meetings 5	Number of meetings 5
Number attended 5	Number attended 5	Number attended 4

The appointment of Douglas McCallum to the Remuneration Committee was renewed for a further three-year period from October 2014. The biography of each member of the Remuneration Committee is set out in the Board of Directors section on pages 62 to 63.

Other attendees at the Remuneration Committee meetings included the Chairman of the Board, the Chief Executive Officer, the Chief Financial Officer, the Director of Human Resources, the Rewards and Benefits Manager, the Company Secretary, the Deputy Company Secretary and the external adviser to the Remuneration Committee, Deloitte LLP. The Chairman, the Company Secretary and the Executive Directors and other attendees are not involved in any decisions of the Remuneration Committee and are not present at any discussions regarding their own remuneration. 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
Deloitte LLP	Remuneration Committee	Executive remuneration advice including in respect of GIP design, changes to the Directors' remuneration policy and other incentive arrangements.	Separate teams engaged by the Company to advise on a range of Company tax, share schemes and accounting matters, including transaction advice.
Slaughter and May	Company	None	Employment law, share schemes and tax as well as general UK legal advice in respect of a number of the Company's remuneration matters, including implementation of share schemes such as the GIP.

Deloitte LLP were appointed by the Remuneration Committee in 2012 following a tender process led by the Remuneration Committee Chairman. Deloitte LLP confirmed to the Company that it is a member of the Remuneration Consultants Group and as such operates under the code of conduct in relation to executive remuneration consulting in the UK. The Remuneration Committee is, following its annual review, satisfied that Deloitte LLP has maintained independence and objectivity.

For the period, Deloitte LLP were paid £71,400 in advisory fees for services provided to the Remuneration Committee during the period.

In addition to the external advice received, the Remuneration Committee consulted and received reports from the Company's Chief Executive Officer, the Chief Financial Officer, the Chairman, the Director of Human Resources and the Deputy Company Secretary. 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 2014

The Remuneration Committee has been delegated responsibility for setting remuneration for all of the Executive Directors, the Chairman and the Company Secretary. This is outlined on page 68. In line with its terms of reference, the following key matters were considered by the Remuneration Committee during the period:

- approving the Directors' remuneration policy and 2013 Directors' remuneration report;
- reviewing performance under the 2013 AIP and consideration of any bonuses payable;
- approving the 2014 AIP performance targets;
- approving the 2014 LTIP awards and performance targets;
- reviewing and approving the proposed new GIP scheme and 2014 ESOS;
- considering a report on shareholder consultation meetings;
- approval of changes to the AIP for 2015 including review of performance measures;
- consideration of changes to the performance measures for the LTIP for 2015 awards;
- receiving a report on the Group's share schemes and plans for 2015;
- approving the implementation of the SIP;
- approving a new invitation for 2015 under the Sharesave scheme;
- receiving a report on Executive Director remuneration benchmarking and approving increases in the Executive Director base salaries;
- consulting the Chief Executive Officer and the Chairman on performance and remuneration of the Executive Directors;
- receiving a report on Group-wide and management remuneration for 2014;
- receiving reports from Deloitte on senior executive pay, market themes and trends;
- reviewing the pension arrangements for the Executive Directors;
- reviewing the Remuneration Committee's performance; and
- reviewing the performance of Deloitte LLP and retaining them as external remuneration consultants.

The Remuneration Committee's work also included monitoring and considering (rather than recommending) 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.

During the period, the Remuneration Committee Chairman and the Chairman carried out a shareholder consultation with the largest shareholders. The Company's major shareholders were given the opportunity to meet to discuss a number of remuneration initiatives for the Executive Directors, including the Directors' remuneration policy and the new long-term incentive arrangements. Changes were made to the proposed incentive arrangements in response to the feedback received from shareholders (for example, changes to the LTIP design and performance measures and changes to the performance targets under the GIP). Following the consultation, the remuneration proposals were approved by shareholders at the Company's annual general meeting in May 2014 (as further outlined in the Annual report on remuneration on page 129).

The Remuneration Committee carried out a review of its terms of reference during the period. The review resulted in some amendments to the terms of reference to take account of the changes in the 2014 Code.

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 continued

COMPLIANCE WITH THE 2012 CODE AND 2014 CODE

The Company has complied with the 2012 Code in respect of the Directors' remuneration policy and this Directors' remuneration report, to the extent explained in the Statement of corporate governance on page 66. The 2014 Code does not apply to the Company's reporting period ended 30 November 2014. However, the Board has, where appropriate and feasible, adopted some of the new provisions in the 2014 Code earlier than required and provides disclosure against these requirements in this Directors' remuneration report.

Clawback and Malus

The Remuneration Committee reviewed the Director's remuneration policy and existing remuneration arrangements in light of the proposed changes under the 2014 Code. As noted in the Directors' remuneration policy, all of the rules of the Executive Director share schemes and incentives contain clawback and malus provisions or equivalent bad leaver provisions, which allow the Company to potentially recover sums paid or withhold payment of any amount in certain circumstances. To this extent, the Company is compliant with the new provisions of the 2014 Code.

Deferral

The 2014 Code provides that for share schemes, directors should be required to hold shares for a period after vesting or exercise including for a period after leaving the Company. While some of the share schemes do not contain any requirements for share deferral or additional holding periods, 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 lengthy five-year vesting period that applies to the GIP. Such factors help create a longer-term focus for the business from the Executive Directors and stronger alignment with shareholders.

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 7 May 2014 and took effect from that date. Since then the Remuneration Committee 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 2017, or sooner in the event of proposed revisions to the policy.

The Directors' remuneration policy is extracted in full from the 2013 annual report, without amendment except: (i) this introduction; (ii) to reflect shareholder approval of the GIP and 2014 ESOS; and (iii) minor amendments such as page or cross references and changed defined terms. It is in the form approved by shareholders at the annual general meeting which took place on 7 May 2014.

REMUNERATION PRINCIPLES FOR SENIOR EXECUTIVES

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

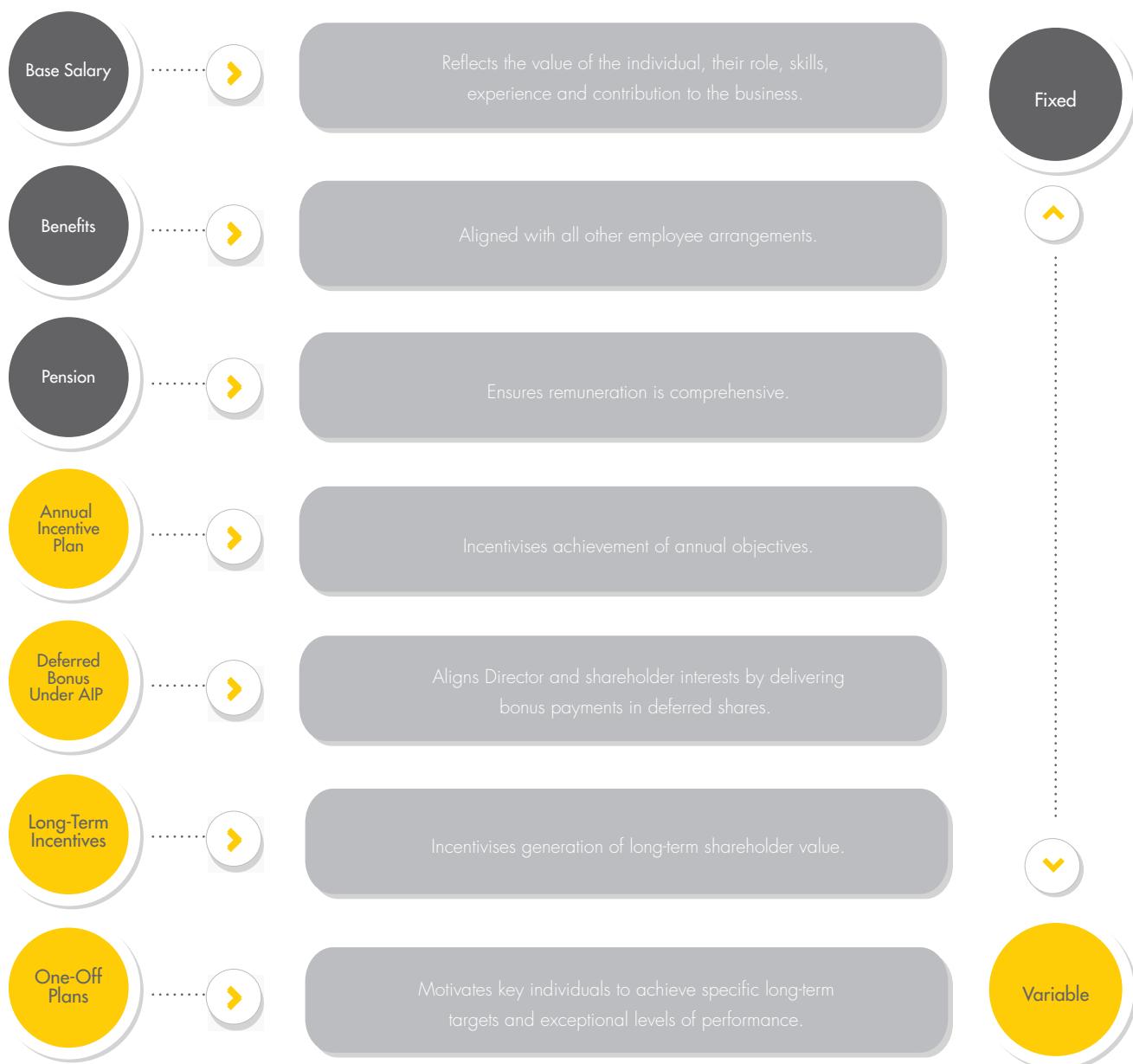
- Support long-term success and sustainable long-term shareholder value.
- Be aligned to the business strategy and achievement of planned business goals.
- Be compatible with the Group's risk policies and systems.
- Link maximum payout to outstanding results.
- Ensure that performance related pay constitutes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

LINK WITH STRATEGY

The Company's reward strategy continues to evolve in parallel with the Company's development. The key objective to be achieved through the 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 core business performance

in the short and medium term (for example, EBITDA and sales growth targets) and the objectives of creating long-term success and sustainable long-term shareholder value (for example, EPS target and share price growth targets).

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 page 110. The Remuneration Committee introduced

DIRECTORS' REMUNERATION REPORT continued

share deferral in the AIP, minimum shareholding requirements and the GIP to help ensure a longer-term focus for the business from the Executive Directors.

REMUNERATION COMMITTEE DISCRETION AND JUDGEMENT

In formulating the Directors' remuneration policy, the Remuneration Committee has sought to allow it sufficient operational flexibility over Director remuneration for the next three years. While the policy provides the boundaries for remuneration arrangements, the policy is intended to provide some isolated discretion for the Remuneration Committee to use in various circumstances relating to particular components of remuneration. The 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 or payment	Y	Y	N	Y
Discretion required when dealing with a change of control or restructuring of the Group	Y	Y	Y	Y
Determination of the treatment of leavers based on the rules of the plan and the appropriate treatment chosen	Y	Y	Y	Y
Adjustments required in certain circumstances (for example, rights issues, corporate restructuring events and dividends)	Y	Y	Y	Y
Adjust or change the performance conditions if anything happens which causes the Remuneration Committee reasonably to consider it appropriate (for example, Board approved strategic initiative or transaction) provided that any changed performance condition will be equally difficult to satisfy as the original condition would have been had such circumstances not arisen	Y	Y	N	Y
The annual review of performance measures and weighting, and targets from year to year	Y	Y	Y	N
Adjustment to level of payments, even when targets met (for example, to reflect individual or Company performance)	Y	N	N	N
Application of malus and clawback	Y	Y	N	Y

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

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

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

DEVELOPMENT OF DIRECTORS' REMUNERATION POLICY

Shareholder context

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

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

Employee context

The Directors' remuneration policy is designed in line with the remuneration principles outlined on page 96, which reflect the remuneration principles for the Group. A key remuneration principle for the Group is that share schemes be used to recognise and reward good performance and attract and retain employees, wherever possible and appropriate. This is reflected by the operation of the ESOS which allows all employees an opportunity to share in the Group's success via share ownership. This philosophy will be maintained via awards to all employees under the Share Incentive Plan, rather than the ESOS.

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

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

DIRECTORS' REMUNERATION REPORT continued

REMUNERATION POLICY TABLE: ELEMENTS OF DIRECTOR REMUNERATION

The Directors' remuneration policy as it applies to the Executive Directors consists of the elements set out in the table below:

Purpose and link to strategy	How it operates	Performance conditions	Maximum opportunity	Recovery or withholding
Fixed pay				
Base pay Attract and retain the right calibre of senior executive required to support the long-term interests of the business.	Paid monthly in cash. Reviewed annually by the Remuneration Committee, with any changes normally becoming effective in April each year. The review takes into account a number of factors including: the Group's annual review process, business performance, total remuneration, appropriate market data for comparable roles for companies of equivalent size and complexity in similar sectors and geographical locations to the Company, and an individual's contribution to the Group.	Not performance linked.	To avoid setting the expectations of Executive Directors and other employees, no maximum salary is set under the policy. However, normally, maximum salary increases for Executive Directors will be within the normal percentage range and guidelines that are applied to the monthly paid employees of the Company in that year. Where appropriate and necessary, larger increases may be awarded in exceptional circumstances; for example, if a role has increased significantly in scope or complexity. Larger awards may also be considered appropriate and necessary to bring a recently appointed executive in line with the market and the other executives in the Company where their initial salary has been positioned below the market.	No contractual provisions for clawback or malus.
Benefits Attract and retain the right calibre of senior executive required to support the long-term interests of the business.	The Company provides a range of benefits which are aligned with those provided to monthly paid employees. These may include: private medical insurance, life assurance, travel insurance, critical illness cover, travel allowance, free parking, access to financial and legal advice and Company-wide employee benefits including an employee assistance programme, staff product discount and subsidised staff canteens and discounts. Any travel arrangements or travel costs required for business purposes will be provided by the Company. Additional benefits or payments in lieu of benefits may also be provided in certain circumstances, if required for business needs. Any benefits allowances will be paid in cash monthly and will not form part of pensionable salary.	Not performance linked.	Benefits for Executive Directors are set at a level which the Remuneration Committee considers to be appropriate against appropriate market data for comparable roles for companies of equivalent size and complexity in similar sectors and geographical locations to the Company.	No contractual provisions for clawback or malus.

Purpose and link to strategy	How it operates	Performance conditions	Maximum opportunity	Recovery or withholding
Pension Attract and retain the right calibre of senior executive required to support the long-term interests of the business.	Contributions, allowances and pension choices for the Executive Directors are on the same terms as for other employees. Executive Directors can choose to participate in the defined contribution Group personal pension scheme or an occupational money purchase scheme. Where lifetime or annual pension allowances have been met, employer contributions may be paid into a personal pension arrangement. These will not be treated as salary for the purposes of incentive awards. The Group's contributions under the defined contribution scheme are set as a percentage of salary based on length of scheme membership. Contributions under the occupational money purchase scheme are aligned with the legislative minimum.	Not performance linked.	Contributions to the defined contribution scheme for Executive Directors will normally be in line with the other scheme participants; however, the Remuneration Committee may exceed this standard maximum in order to be market competitive and attract and retain the right calibre of senior executive talent needed to support the long-term interests of the business. Pension contributions for UK Executive Directors will not exceed 30% of base salary. For Executive Directors outside the UK, provision for an executive pension will be set taking into account local market rates.	No contractual provisions for clawback or malus.
Variable pay: Short-term incentives				
Annual Incentive Plan ("AIP") Provide a direct link between measurable and predictable annual Company and/or role specific performance and reward. Incentivise the achievement of outstanding results aligned to the business strategy.	Measures and targets are set annually and bonus payments are determined by the Remuneration Committee following the year-end based on performance against the targets. Bonus payments, if made, are payable in cash after the results of the Group have been audited. To the extent that an Executive Director does not meet the minimum shareholding requirement, up to 50% of any bonus payment will be deferred into shares, vesting after a period of three years.	The Remuneration Committee sets annual targets that are closely aligned to the delivery of the Group's strategic objectives for that year. These will be a mix of strategic and financial targets with the majority being financial. For threshold performance, 25% of the maximum opportunity will be earned. For stretch performance, the maximum opportunity will be earned. A straight-line sliding scale applies between the threshold and the maximum. The performance conditions for the relevant financial year are described in the Annual report on remuneration.	The maximum bonus is 200% of base salary. For the 2014 performance year, the maximum bonus is 100% of base salary for the Executive Directors and 125% for the Chief Executive Officer.	The AIP rules provide for clawback and malus for three years from date of payment of a bonus or grant of a deferred award in certain exceptional circumstances.

DIRECTORS' REMUNERATION REPORT continued

Purpose and link to strategy	How it operates	Performance conditions	Maximum opportunity	Recovery or withholding
Variable pay: Longer-term incentives				
Long Term Incentive Plan ("LTIP") Attract, retain and incentivise senior executives. Align the interests of the senior executives and the shareholders.	An award over a fixed number of shares is granted annually. Awards made in the form of nil-cost options or conditional share awards will ordinarily vest three years from award, subject to continued service and the achievement of performance conditions and other conditions. Dividend equivalents may be paid in cash or additional shares on LTIP awards that vest. The award may be satisfied either by a new issue of shares, the transfer of treasury shares or shares held in the Company's EBT or by market purchase of shares.	The Remuneration Committee sets targets that are closely aligned to the delivery of the Group's strategic objectives for the performance period. These may be a mix of strategic and financial targets with the majority being financial. For threshold performance, 25% of the maximum opportunity will vest. For stretch performance, the maximum opportunity will vest. Vesting will be on a straight-line basis between the threshold and the maximum. The measurement period for performance conditions will ordinarily comprise at least three financial years of the Company. The performance conditions for the final year of the three-year vesting period are described in the Annual report on remuneration.	The Remuneration Committee may grant awards, with a maximum total market value of 150% of annual base salary of a participant. In the case of the Chief Executive Officer, the maximum total market value of an LTIP Award is 200% of annual base salary. In exceptional circumstances, the Remuneration Committee may grant awards with a maximum total market value of 300% of annual base salary of a participant or, in the case of the Chief Executive Officer, 400% of annual base salary.	Clawback and malus provisions may be applied to LTIP awards in certain exceptional circumstances.
Joint Share Ownership Scheme ("JSOS") Attract, retain and incentivise senior executives. Align the interests of the senior executives and the shareholders, by driving share price growth over four years.	The JSOS was established prior to the Company's listing on the London Stock Exchange in 2010. The participants and Appleby Trust (Jersey) Limited, the EBT Trustee, acquire separate beneficial interests in ordinary shares of the Company. The participant may lose his interest in the shares. No future annual awards will be made under the JSOS to Executive Directors.	Interests in shares vest annually over a four-year period subject to leaver provisions. The participant benefits from the increase in value of the shares above a predetermined market price for each tranche (the "hurdle price"). Awards under the JSOS will have no value unless the hurdle price is achieved. Interests in the Company's shares are granted in tranches, with a different hurdle rate for each tranche.	The JSOS rules contain a 7.5% issued share capital limit for the cumulative total of awards under the plan and the ABI's 5% and 10% in ten year dilution limit for total awards, which constrain the number of interests that may be issued under the JSOS.	Certain leaver provisions described on page 108 allow the Company to recover share interests in certain circumstances.

Purpose and link to strategy	How it operates	Performance conditions	Maximum opportunity	Recovery or withholding
Growth Incentive Plan ("GIP") Attract, retain and incentivise senior executives. Align the interests of senior executives and shareholders, by incentivising senior executives to deliver exceptional levels of growth and return to the shareholder over the long term.	Awards will be granted on a one-off basis. An Executive Director will be granted options over shares in the Company with a nil exercise price. While all Executive Directors are eligible to participate in this plan, only the Chief Executive Officer and two existing Executive Directors will receive an initial grant. New Executive Directors may be invited to participate at a level dependent on the point during the performance period at which they joined. To participate, the Executive Directors are required to hold a level of shares throughout the performance period. For the Chief Executive Officer, this shareholding must be at least one times salary and for other Executive Directors, this shareholding must be at least half times salary.	Options will be subject to a single performance condition to be satisfied over the five years from the date of grant. The share price of the Company is the sole performance measure and will be assessed relative to the growth of the FTSE 100 Share Index over that period. Performance will be assessed based on the three month average share price of the Company and of the FTSE 100 Share Index at the beginning and end of the performance period. The performance target schedule is as follows: <ul style="list-style-type: none">• Growth of less than the FTSE 100 Share Index plus 5% p.a.: 0% of the award vests.• Growth in FTSE 100 Share Index plus 5% p.a.: 25% of the award vests.• Growth in FTSE 100 Share Index plus 10% p.a.: 50% of the award vests.• Growth in FTSE 100 Share Index plus 15% p.a.: 75% of the award vests.• Growth in FTSE 100 Share Index plus 20% p.a. (or more): 100% of the award vests.	Four million shares will be awarded to the Chief Executive Officer. One million shares will be awarded to each of the other participating Executive Directors. Awards to new participating Executive Directors will not exceed the proposed award levels to existing participants.	Clawback and malus provisions may be applied to GIP awards in certain exceptional circumstances.
All-employee share plans				
Sharesave Provide all employees, including Executive Directors, the opportunity to voluntarily invest in Company shares and be aligned with the interests of shareholders.	All employees are eligible to participate in this HMRC approved employee share scheme. The Company grants options over shares in the Company to employees, including the Executive Directors. To obtain an option an eligible individual must agree to save a fixed monthly amount for three years up to the maximum monthly amount in line with HMRC limits. The amount saved will determine the number of shares over which the option is granted. Options are granted at a discount to the market price at the time of grant. Options may be exercised in a six month period three or five years from the date of grant, subject to continued service.	Not performance linked.	Options may be granted at a maximum discount to the market price up to a maximum amount in line with HMRC limits. Employees are limited to saving a maximum in line with these HMRC limits.	The scheme rules do not provide for malus or clawback provisions.

DIRECTORS' REMUNERATION REPORT continued

Purpose and link to strategy	How it operates	Performance conditions	Maximum opportunity	Recovery or withholding
Share Incentive Plan ("SIP") Provide all employees, including Executive Directors, the opportunity to receive and invest in Company shares and be aligned with the interests of shareholders.	All employees are eligible to participate in this HMRC approved employee share scheme. The SIP allows for: <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. Dividend shares are also covered by the SIP arrangements.	Not performance linked.	Maximum opportunity for awards will be in line with HMRC limits.	The scheme rules do not provide for malus or clawback provisions.
Executive Share Option Scheme ("ESOS") Provide all employees, including Executive Directors, the opportunity to receive Company share options and be aligned with the interests of shareholders.	All employees are eligible to participate in this HMRC approved employee share scheme and the unapproved part of the scheme. The Company grants options over shares in the Company to employees. There are currently no plans to make awards to the Executive Directors under this plan. Options over shares vest on the third anniversary of grant, subject to continued service and satisfaction of any performance conditions. If vested, the options may be exercised at any time between the third and tenth anniversaries of grant at the executive's discretion.	If awards are made the Remuneration Committee will set targets. Targets will be closely aligned to the delivery of the Group's strategic objectives. These may be a mix of strategic and financial targets with the majority being financial. For threshold performance, up to 25% of the maximum opportunity would be received.	Maximum opportunity for awards will be in line with HMRC limits for the HMRC approved part of the scheme. Maximum opportunity for awards under the unapproved part of the scheme are limited by the scheme rules which limit an award to 300% of annual base salary, except in exceptional circumstances.	The scheme rules do not provide for malus or clawback provisions.
2014 Executive Share Option Scheme ("2014 ESOS") Provide all employees, including Executive Directors, the opportunity to receive Company share options and be aligned with the interests of shareholders.	The 2014 ESOS was approved by shareholders at the 2014 annual general meeting. The 2014 ESOS is based on the ESOS, described above. There are currently no plans to make awards to the current Executive Directors under this plan.	Same as for ESOS described above.	Same as for ESOS described above.	Same as for ESOS described above.

The Directors' remuneration policy as it applies to Non-Executive Directors consists of the elements set out in the table below:

Purpose and link to strategy	How it operates
Non-Executive Director fee Core element of remuneration, paid for fulfilling the role in question.	<p>Paid monthly in cash.</p> <p>Fee structure includes an annual base fee for a Non-Executive Director and a Senior Independent Director, and additional fees for being a Board Committee chair.</p> <p>Reviewed annually by the Executive Directors and Chairman, with any changes normally becoming effective in April each year.</p> <p>The review takes into account a number of factors including: the Group's annual review process, business performance and appropriate market data for comparable roles for companies of equivalent size and complexity to the Company.</p> <p>Non-Executive Directors are not usually eligible for annual bonus, all-employee share incentive schemes, pensions or other benefits with the exception of the staff product discount offered to all employees.</p>
Chairman fee Core element of remuneration, paid for fulfilling the role in question.	<p>Paid monthly in cash.</p> <p>Reviewed annually by the Remuneration Committee, with any changes normally becoming effective in April each year.</p> <p>The review takes into account a number of factors including: the Group's annual review process, business performance and appropriate market data for comparable roles for companies of equivalent size and complexity to the Company.</p>
Chairman's Share Matching Award To attract and retain the right calibre of Chairman necessary to support the long-term interests of the business.	<p>The Chairman is not usually eligible for annual bonus, any incentive schemes, pensions or other benefits.</p> <p>The current Chairman received a one-off initial share award upon his appointment as Chairman. Shares will not vest until the Chairman has served for three years. The Chairman will not be entitled to sell any shares awarded to him until the first anniversary of when he ceases to be a member of the Board. The award is not subject to performance conditions. Certain leaver provisions described on page 108 allow the Company to recover the award in certain circumstances.</p>

Notes to the Policy table:

- 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 117.
- The Non-Executive Directors are entitled to be reimbursed for out of pocket expenses incurred in carrying out their responsibilities to the Company.
- Other than as described in the policy table, there are no components of the Executive Directors' remuneration that are not subject to performance measures. In the case of the Sharesave and SIP, these HMRC approved all-employee schemes are subject to rules constrained by legislation and so awards are made on the same terms (not comprising performance conditions) to all employees including Executive Directors. Prior to the Company's listing in 2010, some option awards were made to the Executive Directors under the ESOS without performance conditions. Although awards will not usually be made to existing Executive Directors, the rules of the ESOS and 2014 ESOS require the Remuneration Committee to impose performance conditions on any awards made to a Director under each plan. The Chairman's Share Matching Award was a one-off award of shares made to the Chairman on appointment. No performance conditions attached to the receipt of the award (only continued service as Chairman until the end of the three-year vesting period). In structuring the Chairman's Share Matching Award without any performance related elements, the Remuneration Committee complied with the 2012 Code and sought to ensure the Chairman's independence on appointment. The Chairman is not entitled to sell any awarded shares until a year after he leaves the Board. The award was approved by shareholders at the 2013 annual general meeting. Performance targets apply to the AIP, LTIP and GIP.
 - 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 performance measures applying to the 2014 AIP are outlined in the Annual report on remuneration.
 - LTIP – The Remuneration Committee reviews the design of the LTIP each year to ensure that the performance conditions remain relevant to the Company's key strategic objectives. The Remuneration Committee reviews the performance measures in light of the long-term strategic plan and agrees the threshold and stretch conditions that must be achieved. Full vesting will only occur where exceptional performance levels have been achieved and significant shareholder value created. In light of shareholder feedback from the shareholder consultation conducted in March 2013, the Remuneration Committee revised the targets from 2013 and decided to put in place two performance objectives for the 2014 awards. The underlying measurement period for performance conditions will ordinarily comprise at least three financial years of the Company. In the case of the 2013 and 2014 awards the measurement period is the last financial year.
 - 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. The GIP was approved by shareholders at the 2014 annual general meeting.
- The Directors' remuneration policy contains formal components for short and long-term incentives with performance conditions attached. While the Group has a policy of remunerating its employees through share scheme participation, it does not have formal arrangements for all employees akin to the components of Directors' remuneration. Senior management participate in an annual bonus plan and the long-term incentive schemes including the LTIP and JSOS, with award levels set at lower percentages of salary than those of the Directors. The performance conditions and other terms of these schemes are the same as for the Executive Directors. The bonus plan does not include provision for share deferral of a payment. The Group operates some tailored bonus and long-term incentive arrangements (such as the JSOS) for other small groups of employees but aside from the JSOS and the all-employee share schemes (the SIP, the ESOS and the Sharesave), the variable remuneration of employees is not closely aligned with that of Directors.

DIRECTORS' REMUNERATION REPORT continued

DIRECTOR SHAREHOLDING OBLIGATION

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

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

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

APPROACH TO REMUNERATION OF DIRECTORS ON RECRUITMENT

Recruitment of Executive Directors

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

The Remuneration Committee will seek to align the remuneration package of a newly appointed Executive Director with the 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 was not made in contemplation of such person becoming an Executive Director.

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

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

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

Recruitment of Non-Executive Directors

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

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 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 108 provides a summary of these leaver provisions. The Remuneration Committee generally has discretion to determine the treatment of a leaver, but will be conscious of the remuneration principle that it should not reward poor performance or behaviour.

Payments on cessation of service for Non-Executive Directors

The table on page 108 provides a summary of the leaver provisions applicable to the Chairman's Share Matching Award. The Remuneration Committee has discretion in defining the type of leaver category applicable to the departing Chairman.

DIRECTORS' REMUNERATION REPORT continued

SHARE SCHEME LEAVER PROVISIONS

Remuneration element	Bad leavers	Good leavers
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 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>
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 awards which have not vested will vest on the vesting date (or earlier as the Remuneration Committee shall determine) but only to the extent that the performance conditions have been satisfied subject to operation of malus and clawback provisions. Unless the Remuneration Committee decides otherwise, the award will be reduced pro rata to reflect the proportion of the performance period that has elapsed to the date of cessation of employment.</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.</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 and will otherwise lapse at the end of that period. To the extent that a participant who leaves in circumstances other than dismissal for cause or who dies holding vested LTIP options, they may be exercised at any time during the usual exercise period and will otherwise lapse at the end of that period.</p>
GIP	<p>See LTIP above, as the same leaver rules apply.</p>	<p>See LTIP above, as the same leaver rules apply.</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 HMRC approved scheme rules.</p>	<p>Leavers will be treated within the HMRC approved scheme rules.</p>
Chairman's Share Matching Award	<p>If the Chairman ceases to be a Director of the Company prior to vesting for any reason other than a good leaver reason, the share award will be forfeited.</p>	<p>If the Chairman ceases to be a Director of the Company prior to vesting for a "good leaver reason" (death, illness, injury or disability or any other reason determined by the Board) then a pro rata proportion of the share award will vest and the remainder shall lapse.</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 prorating would be inappropriate in the particular circumstances) prorating to reflect the proportion of the normal performance period that has elapsed at the date of that event.

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

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

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

For further information on agreements impacted by a change of control see the Directors' report on page 86.

OTHER REMUNERATION

External appointments for Executive Directors

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

Remuneration arrangements prior to policy

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

ILLUSTRATION OF DIRECTORS' REMUNERATION POLICY

The bar charts on page 110 provide estimates of the potential future reward opportunity for each of the Executive Directors based on the Directors' remuneration policy outlined on pages 96 to 110.

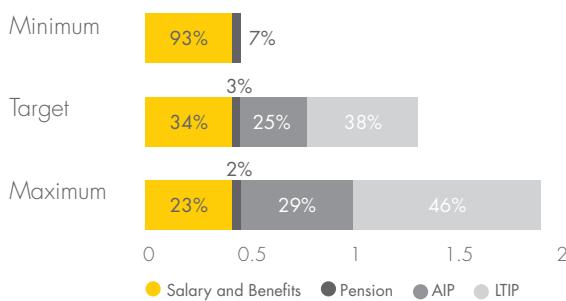
	AIP	LTIP	Base salary, benefits and pension
Minimum	Performance is below threshold on each metric.	Performance is below threshold on each metric.	Fixed.
Target or at expectation	Threshold performance is reached on each metric.	Threshold performance is reached on each metric.	Fixed.
Maximum	Maximum performance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

DIRECTORS' REMUNERATION REPORT continued

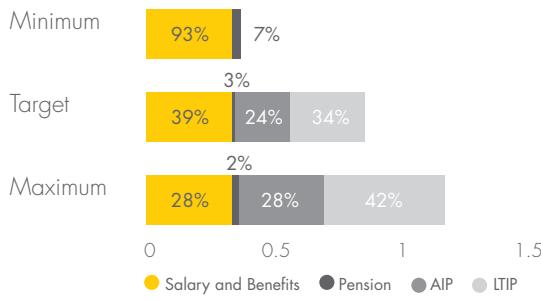
The figures use the prior year base salary and pension (see 2013 annual report on pages 88 to 89) and value of benefits received for 2013 (see 2013 annual report on page 89). The performance related pay figures are based on the potential awards for 2014 (see 2013 annual report on pages 102 to 103), but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

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

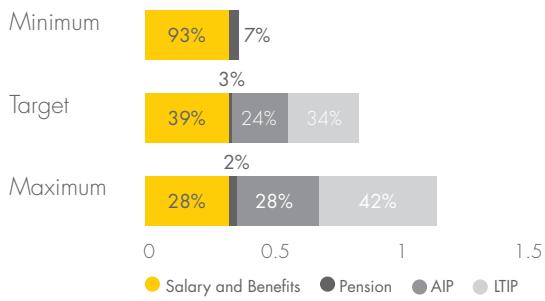
TIM STEINER, CHIEF EXECUTIVE OFFICER
 (£ million)



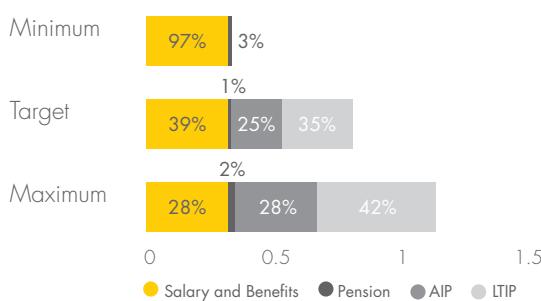
MARK RICHARDSON, OPERATIONS DIRECTOR
 (£ million)



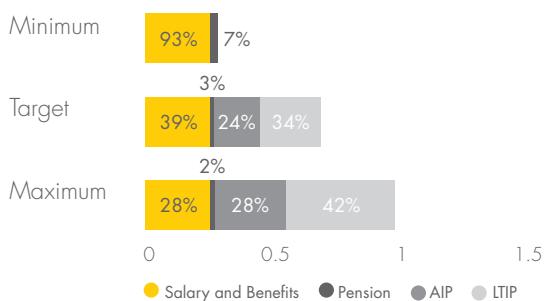
JASON GISSING, COMMERCIAL DIRECTOR
 (£ million)



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



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



ANNUAL REPORT ON REMUNERATION – 2014

INTRODUCTION

This part of the Directors' remuneration report sets out the Directors' remuneration paid in respect of the 2014 Financial year. It sets out actual payments to Directors and details on the link between Company performance and remuneration of the Chief Executive Officer. This part, together with the Description of the Remuneration Committee section on pages 94 to 96 constitutes the Annual report on remuneration, and will be subject to an advisory shareholder vote at the Company's AGM.

HIGHLIGHTS FOR 2014

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 3% to 3.6% for the Executive Directors and 22% for the Chief Executive Officer.	No changes made to Company contributions to pensions for Executive Directors.	Total bonus earned for 2014 based on 54% to 56% of target achievement resulting in £793,090 less aggregate bonus payments than 2013 for the Executive Directors.	Awards were granted under the LTIP and GIP. No LTIP awards vested during the period.	No awards or options vested under any all-employee share schemes during the period.
Pay increases for the Non-Executive Directors.			Final tranche of JSOS vested during the period. No share interests were sold or realised by the Executive Directors and remain in the EBT.	Certain options exercised under ESOS and Sharesave, where options were due to expire.
No change to benefits.				Ongoing participation in the SIP scheme.
Further information:				
See page 113.	See page 113.	See page 114.	See page 115.	See pages 115 - 116.

TOTAL DIRECTOR REMUNERATION (AUDITED)

The total remuneration paid to all of the Directors during the period was £3,171,000 (not including any amount attributable to the JSOS). The detailed remuneration breakdown for the Executive Directors and the Non-Executive Directors is set out separately on the next page.

DIRECTORS' REMUNERATION REPORT continued

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 remuneration (excluding any amount attributable to the JSOS) paid to the Executive Directors was £2,656,000, which was 21% lower than 2013 (£3,367,000).

	Tim Steiner		Jason Gissing ¹		Neill Abrams		Duncan Tatton-Brown		Mark Richardson	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Salary	517	417	144	278	282	226	337	310	337	258
Taxable Benefits	1	1	1	1	1	1	1	1	1	1
Pensions	41	33	12	22	23	18	19	9	27	21
Total Fixed Pay	559	451	157	301	306	245	357	320	365	280
AIP	385	528	—	307	156	257	184	307	187	307
Total Remuneration in cash	944	979	157	608	462	502	541	627	552	587
Share Plans – requiring investment										
JSOS – theoretical gain	5,503	—	3,669	—	2,227	—	2,937	—	2,562	—
Share Plans – awards										
LTIP	—	—	—	—	—	—	—	—	—	—
GIP	—	—	—	—	—	—	—	—	—	—
ESOS	—	—	—	—	—	—	—	—	—	—
2014 ESOS	—	—	—	—	—	—	—	—	—	—
SIP	—	—	—	—	—	—	—	—	—	—
Sharesave	—	32	—	—	—	32	—	—	—	—
Total for Share Plans	5,503	32	3,669	—	2,227	32	2,937	—	2,562	—
Recovery of sums paid	—	—	—	—	—	—	—	—	—	—
Total Remuneration	6,447	1,011	3,826	608	2,689	534	3,478	627	3,114	587

1. Jason Gissing retired from the Board at the Company's annual general meeting on 7 May 2014.

Explanation of JSOS: The JSOS amounts set out in the total remuneration table represent a theoretical gain on interests in the fourth tranche of JSOS shares purchased by the Executive Directors. None of the Executive Directors have realised any of their JSOS share interests and therefore no money has been received by any of the Executive Directors in this regard.

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. If the share price remains below the hurdle until the end of the scheme, the Executive Directors will lose their investment. For a detailed description of the JSOS scheme refer to pages 249 to 252 of the Prospectus.

The fourth and final tranche of JSOS shares vested in the period, on 1 January 2014. The calculation of the amount shown in the total remuneration table is based on the Company's share price on the next trading day, 2 January 2014, being 447 pence per share. This price was above the hurdle price of 228 pence per share for the fourth tranche (and above the hurdle price of 180 pence per share in respect of the additional fourth tranche held by Mark Richardson and Duncan Tatton-Brown) of JSOS share interests. Consequently, amounts of JSOS remuneration for 2014 are shown in the total remuneration table. This compares to zero in 2013 in respect of the third tranche of JSOS share interests, as on the equivalent vesting date in 2013 (being 2 January 2013) the Company's share price was 84.75 pence per share, below the hurdle price of 208 pence per share for the third tranche (and below the hurdle price of 170 pence per share in respect of the additional third tranche held by Mark Richardson and Duncan Tatton-Brown) of JSOS share interests. The third tranche of JSOS share interests at the 2013 vesting date had a value of zero and would have been rendered worthless had the share price remained at that level until the end of the scheme. Consequently no remuneration is shown for JSOS in 2013 in the total remuneration table.

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 the total remuneration table.

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 (other than Jason Gissing's) be increased. The following table shows the change in each Executive Director's salary.

Director	Salary 2014 (£)	Salary 2013 (£)	Effective from
Tim Steiner	550,000	450,000	1 April 2014
Neill Abrams	285,000	275,000	1 April 2014
Mark Richardson	340,000	330,000	1 April 2014
Duncan Tatton-Brown	340,000	330,000	1 April 2014
Jason Gissing ¹	330,000	330,000	—

1. Jason Gissing received no increase in base salary in light of his retirement on 7 May 2014.

The changes to base salary were made in line with the Directors' remuneration policy. The Executive Directors (except the Chief Executive Officer) received an increase in base pay of £10,000 each which was in line with the percentage salary increases for the monthly paid employees of the Group in the period. The Remuneration Committee decided to increase the base salary of the Chief Executive Officer more significantly than this after taking into account the changes in the complexity and scale of the role due to the transaction with Morrisons, which was completed in July 2013. 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. The Executive Directors also received other benefits, which are not taxable, including life assurance and Group-wide employee benefits, such as an employee product discount. The remuneration arrangements for the Executive Directors do not include a company car or car cash allowance.

PENSIONS (AUDITED)

The Company made pension contributions on behalf of the Executive Directors to the defined contribution Group personal pension scheme (which is administered by Standard Life). 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 rates being, for employees and Executive Directors joining the pension scheme before May 2013, from 3% up to 8%, and 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). The contributions during the period made on behalf of the Executive Directors were 8% of base salary, except in the case of Duncan Tatton-Brown, which was 6% of base salary during the period, and has subsequently increased to 7% effective from January 2015, in accordance with the generally applicable rules of the scheme.

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.

During the period the Remuneration Committee reviewed this policy and the Company's pension arrangements, including the employer contribution rates for the Executive Directors. The market data illustrated that the existing Company pension contributions are materially below the market median rate when compared with similar senior executive roles in companies of a similar size and complexity to the Company.

The Remuneration Committee recommended to the Board that all pension contribution rates for the Executive Directors not be changed. In reaching its decision the Remuneration Committee took into account the Director's remuneration policy, relevant market data (presented by Deloitte), the overall remuneration package of the Executive Directors (presented by management) and the recent changes made to the remuneration of the Executive Directors, including the introduction of long-term incentive arrangements. The Company's overall policy is to seek 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 recent introduction of the LTIP and the GIP supports this emphasis in the policy. So while the alignment of the Company's pension arrangements with the market may become crucial in future to ensure the Company remains competitive, an increase in pension contributions for the Executive Directors was not considered appropriate at this time.

DIRECTORS' REMUNERATION REPORT continued

During the period, the Remuneration Committee agreed to allow pension contributions to be made to the Executive Directors as a cash allowance where the Executive Director has reached either the HMRC annual limit or HMRC lifetime allowance limit for pension contributions. Such change was provided for in the Directors' remuneration 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 2014 AIP was based on the performance targets and weightings set out below. Financial performance measures, namely Gross sales and EBITDA, were the primary targets, with 80% of the annual bonus being determined by performance against targets set by the Remuneration Committee at the start of the financial year, by reference to the Company's budget for the period. Of the balance, 20% related to individual objectives for each of the Directors, largely independent of the financial objectives. Each target was discrete and could be earned separately. 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)	40	40	40	40
Gross sales (% of total target)	40	40	40	40
Individual objectives				
(% of total target)	20	20	20	20
Examples of business area objectives				
	1. Develop strategic plans for the internationalisation of the Company			
	2. Drive efficiency, capacity and increased capability within the business	Prepare and execute financing strategy to include UK and international requirements	Improve productivity at CFC2 to agreed level	Implement recommendations of KPMG corporate governance review
	3. Analyse and act on strategic opportunities	Continue to operate an efficient and effective finance function	Effectively lead the technology function	Develop and implement a CR policy

Financial targets and individual targets

Each Executive Director had between five and eight 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 development of strategic plans for internationalising the business. The Remuneration Committee also considered environmental, social and governance issues when setting the individual objectives, in particular for Neill Abrams who has responsibility for the Group's CR policy. The Remuneration Committee reviewed the performance of each Executive Director against the measurable performance metrics and based their assessment on a report by the Chief Executive Officer and the Chairman and on the Remuneration Committee's judgement of the performance against these individual objectives.

The Group's Gross sales for the period were £1,026.5 million, which was above the "threshold" set under the 2014 AIP. The Group's EBITDA for the period was £71.6 million, which was above the "threshold" set under the 2014 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.

Achievement against the objectives was between 54% and 56%.

Disclosure of targets

The achievement against the AIP targets has been disclosed. Although the Remuneration Committee is conscious of the 2014 Code requirement that performance targets should be transparent, the Remuneration Committee considers that the targets were and remain commercially sensitive to the Company and if disclosed could damage the Company's commercial interests. The actual AIP targets, therefore, have not been 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 2014 AIP, recommended an aggregate bonus payment of £912,415 (2013: £1,705,505) under the plan for the period. The Remuneration Committee believes that the level of bonus payment appropriately reflects the performance of the business and individual performance during the period, which saw strong trading performance for the Group in a very competitive market and good progress with the development of the Group's strategic objectives. The table below summarises the bonus payments for each Executive Director for the 2014 AIP. The cash payments are expected to be made in February 2015. 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 requirements under the Directors' remuneration policy.

Director	Achievement against objectives (%)	Total bonus earned ¹ (£'000)
	Maximum Opportunity (% of salary)	
Tim Steiner	125	385
Duncan Tatton-Brown	100	184
Neill Abrams	100	156
Mark Richardson	100	187

1. The applicable salary used for calculating the bonus payment under the rules of the 2014 AIP is the applicable base salary on the date of payment.

SHARE PLANS (AUDITED)

Awards granted under long-term incentive plans only count towards the total remuneration figure for the period in which they vest. Awards under 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.

JSOS

The fourth and final tranche of JSOS shares vested in the period, on 1 January 2014. All four tranches of the JSOS share interests in the scheme have been retained by each Executive Director and no money has been received by the Executive Directors in this regard. An explanation of the JSOS is set out on page 112.

LTIP

As the second year of operation for the LTIP was 2014, no awards vested during the period. Therefore no value is shown in the total remuneration table for the period.

GIP

The awards made under the GIP are expected to vest in May 2019 (if and to the extent that the vesting criteria are met). Therefore no value is shown in the total remuneration table for the period.

ESOS

No awards under the ESOS vested during the period. Accordingly, no value is shown in the total remuneration table for the period.

2014 ESOS

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 Executive Directors. Accordingly, no value is shown in the total remuneration table for the period.

DIRECTORS' REMUNERATION REPORT continued

SIP

Free 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 and matching shares will be forfeited. As 2014 was the first year of operation for the SIP, no such forfeiture period had expired in respect of free or matching shares awarded to the Executive Directors. 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. Therefore, no value is shown in the total remuneration table for the period.

Sharesave

No awards under the Sharesave vested during the period. Accordingly, no value is shown in the total remuneration table for the period.

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 the Chairman (who has received the Chairman's Share Matching Award, which is noted on page 124) and Robert Gorrie (who receives 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	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Lord Rose ¹	200	118	—	—	—	—	—	—	—	—	—	—	200	118
David Grigson	67	62	—	—	—	—	—	—	—	—	—	—	67	62
Ruth Anderson	57	50	—	—	—	—	—	—	—	—	—	—	57	50
Robert Gorrie	45	40	—	—	—	—	—	—	—	—	—	—	45	40
Jörn Rausing	45	40	—	—	—	—	—	—	—	—	—	—	45	40
Douglas McCallum	56	47	—	—	—	—	—	—	—	—	—	—	56	47
Alex Mahon	45	40	—	—	—	—	—	—	—	—	—	—	45	40

1. Lord Rose was paid £40,000 per annum for the period from appointment as an independent Non-Executive Director on 11 March 2013 to the date of becoming Chairman on 10 May 2013, and £200,000 per annum thereafter.

As explained in the 2013 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. It was recommended that all base fees and certain Board committee chairman fees be increased, with such changes to take effect in April 2014. The following table shows the change in each Non-Executive Director's annual fees.

Non-Executive Director	Base element £'000		Committee chair element £'000		Senior Independent Director element £'000		Total £'000	
	2014	2013	2014	2013	2014	2013	2014	2013
David Grigson	48	40	7	7	15	15	70	62
Ruth Anderson	48	40	12	10	—	—	60	50
Robert Gorrie	48	40	—	—	—	—	48	40
Jörn Rausing	48	40	—	—	—	—	48	40
Douglas McCallum	48	40	12	8	—	—	60	48
Alex Mahon	48	40	—	—	—	—	48	40

The review was carried out by the Executive Directors and Chairman in accordance with the Directors' remuneration policy and accordingly took into account the increased responsibility and time commitments of the roles of the Non-Executive Directors and Board committee chairmen given the growth of the Group, the improved financial position and trading performance of the business, and the appropriate benchmark data (obtained from third party providers) for comparable roles for companies of equivalent size and complexity to the Company.

The Chairman's fees were not subject to review in 2014 as it was agreed on appointment that the Chairman's fee would not be reviewed by the Remuneration Committee for a minimum of three years from appointment.

OTHER REMUNERATION (AUDITED)

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

The Chairman received the Chairman's Share Matching Award on becoming Chairman in May 2013. The details of the award are outlined on page 124.

Robert Gorrie provides consultancy services to the Group and chairs the meetings of the Ocado National Council, in addition to his role as a Non-Executive Director. He provides these services through Robert Gorrie Limited (of which he is the sole shareholder) and is paid a per diem fee for these services. These fees are included in 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 (AUDITED)

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 reappointment 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 on one month's notice, except in the case of the Chairman, which requires six months' notice. 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 Directors are available for inspection at the Company's registered office.

DIRECTOR RETIREMENT ARRANGEMENTS

Jason Gissing, a founder of the business and Commercial Director, retired from the Board at the Company's annual general meeting on 7 May 2014. The Remuneration Committee determined, in accordance with the Directors' remuneration policy, that the arrangements (set out in the table below) should apply in relation to Jason Gissing's remuneration on retirement.

Element of remuneration	Treatment
Remuneration payments	All outstanding salary and pension entitlements were paid up to 7 May 2014 in accordance with Jason Gissing's terms of employment. There were no payments, pension contributions, provision of benefits or pay in lieu of benefits made after the date of Jason Gissing's retirement. There is no intention to make any such payments in the future. The staff product discount has been retained by Jason Gissing post retirement date.
Payment for loss of office	No payment for loss of office or other remuneration payment was made or is to be made.
AIP	Payment of £306,900 was made in March 2014 in respect of the 2013 AIP. This bonus payment was accrued in respect of the 52 weeks ended 1 December 2013 and was paid at the discretion of the Remuneration Committee provided pursuant to the terms of 2013 AIP rules. Jason Gissing was not a participant in the 2014 AIP.
LTIP	The award of 533,536 conditional shares made to Jason Gissing under the 2013 LTIP had not vested prior to retirement and consequently were forfeited. Jason Gissing had no other LTIP awards.
JSOS	All four tranches of JSOS share interests had vested prior to retirement and so were retained by Jason Gissing after his retirement (subject to the rules of the scheme including with respect to leavers).
ESOS	The 200,000 ESOS options held by Jason Gissing had vested and were exercised by Jason Gissing in April 2014. Jason Gissing had no other ESOS options outstanding.
Sharesave	The 9,846 options held by Jason Gissing under the Sharesave had not vested and so lapsed on his retirement. Accumulated savings made under the Sharesave were returned to Jason Gissing as required by the Sharesave scheme rules. No other options or amounts were held by Jason Gissing under the Sharesave.

DIRECTORS' REMUNERATION REPORT continued

PAYMENTS TO PAST DIRECTORS

The Company does not have any arrangements for payments to any former Directors of the Company, including Jason Gissing, who retired during the period.

PAYMENTS OUTSIDE THE DIRECTORS' REMUNERATION POLICY

The Company has not made any payments to a Director outside of the Directors' remuneration policy.

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 was, up until May 2014, an independent non-executive director of Rentokil Initial plc, listed on the London Stock Exchange. For his services to Rentokil Initial plc Duncan was paid a fee of £70,000 per annum. On 1 May 2014 Duncan became 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 is paid a fee of £50,000 per annum.

DIRECTOR SHAREHOLDINGS (AUDITED)

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, were:

Director	Ordinary shares of 2 pence each held at 30 November 2014		Ordinary shares of 2 pence each held at 1 December 2013	
	Direct holding	Indirect holding	Direct holding	Indirect holding
Tim Steiner	14,404,145	14,291,314	14,396,400	14,291,200
Lord Rose	750,000	—	750,000	—
Robert Gorrie	415,660	—	690,660	—
Neill Abrams	560,054	1,313,853 ¹	557,054	1,308,900
Douglas McCallum	10,000	—	68,000	—
Duncan Tatton-Brown	97,865	60,163 ²	50,000	60,000
Ruth Anderson	80,000	—	55,000	—
David Grigson	35,000	—	15,000	—
Alex Mahon	11,099	—	2,000	—
Jörn Rausing	—	69,015,602	—	69,015,602
Mark Richardson	—	208	—	—
Former Directors				
Jason Gissing ³	9,857,600	5,276,200	9,657,600	8,326,200

1. This includes a holding by Caryn Abrams (wife of Neill Abrams) who holds 79,745 (2013: 75,000) ordinary shares, and is a discretionary beneficiary of a trust holding 133,100 (2013: 133,100) ordinary shares.
2. This includes a holding by Kate Tatton-Brown (wife of Duncan Tatton-Brown) who holds 60,000 (2013: 60,000) ordinary shares. The 2013 annual report erroneously showed Duncan Tatton-Brown as holding 60,000 shares and Kate Tatton-Brown as holding 50,000 shares, rather than as correctly stated in the table above, in respect of 2013.
3. This shows Jason Gissing's interests in the Company's shares as at the date of his retirement, being 7 May 2014.

Additional disclosure:

- 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 page 123. 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.
- On 17 May 2013, in respect of various contracts for the transfer of shares (as described on pages 235 and 238 of the Prospectus), Tim Steiner, Jason Gissing and Neill Abrams delayed the date on which completion under the contracts for transfer would take place to 30 June 2016, or such later date as the parties may agree.
- Where applicable, the above indirect holdings include partnership shares held under the SIP, which are held in trust.

DIRECTOR SHAREHOLDING REQUIREMENT (AUDITED)

The table below shows current compliance with the Director shareholding requirements in the Directors' remuneration policy as at the date of this Annual Report.

Director	Minimum shareholding requirement (% of base salary or fee)	Complied with shareholding requirement?	Basis for compliance
Tim Steiner	150	Yes	Indirect and direct shareholdings
Duncan Tattan-Brown	100	Yes	Indirect and direct shareholdings
Neill Abrams	100	Yes	Indirect and direct shareholdings
Mark Richardson	100	Yes	JSOS and SIP interests
Lord Rose	100	Yes	Direct shareholdings
Robert Gorrie	100	Yes	Direct shareholdings
Douglas McCallum	100	No	Direct shareholdings
Ruth Anderson	100	Yes	Direct shareholdings
David Grigson	100	Yes	Direct shareholdings
Alex Mahon	100	Yes	Direct shareholdings
Jörn Rausing	100	Yes	Indirect shareholdings

The assessment for compliance is based on the current annualised salary or fee (as set out in the total remuneration tables) which applied on 20 January 2015 (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 403.4 pence per share on 20 January 2015), of the relevant shareholdings. Mark Richardson satisfies the requirement through his holding of vested JSOS share interests in the EBT, based on the share price on 20 January 2015. Douglas McCallum sold shares during the period, on 25 February 2014. At the time of the share sale Douglas McCallum remained compliant with the Director shareholding requirement in the Directors' remuneration policy. But owing to a subsequent decline in the Company share price and an increase in his annual base fee in April 2014 (the result of which is to increase the minimum shareholding), his current shareholding falls below the minimum Director shareholding requirement as at 20 January 2015. Douglas McCallum expects to purchase additional Company shares in due course which would be intended to satisfy the Director shareholding requirement.

DIRECTORS' REMUNERATION REPORT continued

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	Date of issue	30 November 2014	1 December 2013	Hurdle price (£)	Exercise period
Tim Steiner	03/02/10	2,513,100	2,513,100	1.73	01/01/11 – 01/01/19
	03/02/10	2,513,100	2,513,100	1.91	01/01/12 – 01/01/19
	03/02/10	2,513,100	2,513,100	2.08	01/01/13 – 01/01/19
	03/02/10	2,513,000	2,513,000	2.28	01/01/14 – 01/01/19
Neill Abrams	03/02/10	1,017,200	1,017,200	1.73	01/01/11 – 01/01/19
	03/02/10	1,017,200	1,017,200	1.91	01/01/12 – 01/01/19
	03/02/10	1,017,200	1,017,200	2.08	01/01/13 – 01/01/19
	03/02/10	1,017,100	1,017,100	2.28	01/01/14 – 01/01/19
Duncan Tatton-Brown	01/11/12	365,000	365,000	1.70	01/01/13 – 01/01/19
	01/11/12	1,100,000	1,100,000	1.80	01/01/14 – 01/01/19
Mark Richardson	03/02/10	223,300	223,300	1.73	01/01/11 – 01/01/19
	03/02/10	223,300	223,300	1.91	01/01/12 – 01/01/19
	03/02/10	223,300	223,300	2.08	01/01/13 – 01/01/19
	03/02/10	223,200	223,200	2.28	01/01/14 – 01/01/19
	30/11/12	711,975	711,975	1.70	01/01/13 – 01/01/19
	30/11/12	776,700	776,700	1.80	01/01/14 – 01/01/19
Former Directors					
Jason Gissing	03/02/10	1,675,400	1,675,400	1.73	01/01/11 – 01/01/19
	03/02/10	1,675,400	1,675,400	1.91	01/01/12 – 01/01/19
	03/02/10	1,675,400	1,675,400	2.08	01/01/13 – 01/01/19
	03/02/10	1,675,300	1,675,300	2.28	01/01/14 – 01/01/19

Granted: No awards of JSOS shares interests were made during the period. The Remuneration Committee does not, as at the date of this Annual Report, have any intention of making a further award of share interests under the JSOS scheme to the Executive Directors. Most share interests held by the Executive Directors under the JSOS were granted prior to the Company's listing in 2010.

Vested: Details of JSOS interests which vested during the period can be found on page 112.

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

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 (£)	End of performance period
Tim Steiner	Conditional shares	23/07/13	400	1,371,951	1,800,000	29/11/15
	Conditional shares	05/02/14	200	174,588	900,000	03/12/16
Mark Richardson	Conditional shares	23/07/13	280	469,512	616,000	29/11/15
	Conditional shares	05/02/14	150	96,023	495,000	03/12/16
Neill Abrams	Conditional shares	23/07/13	200	304,878	400,000	29/11/15
	Conditional shares	05/02/14	120	64,016	330,000	03/12/16
Duncan Tatton-Brown	Conditional shares	23/07/13	300	685,975	900,000	29/11/15
	Conditional shares	05/02/14	150	96,023	495,000	03/12/16

- In its first year of operation, LTIP awards were made in respect of both 2012 and 2013.
- 533,536 conditional shares awarded under the LTIP were forfeited by Jason Gissing on his retirement on 7 May 2014.

Granted: LTIP awards were made in respect of 2014 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 of an LTIP award was determined based on a price of 515.5 pence per share, being the volume weighted average price of the Company's ordinary shares on the three trading days prior to 5 February 2014 (being the LTIP grant date).

The 2014 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 two equally weighted performance conditions over a three-year performance period, which are the levels of earnings per share and Group Revenue. These measures replace the EBIT measure that was used for the 2013 awards and were selected following feedback from the shareholder consultation carried out in March 2013.

The Remuneration Committee believes that these two measures provide a more balanced basis for judging performance and earnings per share in particular, better reflecting shareholder interests. The rationale for, and basis of measurement of, the performance metrics was as follows:

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

The 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, 25% of an LTIP award will vest and at "maximum" performance, 100% of an LTIP award will vest. Full vesting will only occur where exceptional performance levels have been achieved and significant shareholder value created.

The actual performance conditions are not disclosed due to their commercial sensitivity on the basis that if disclosed it would be likely to damage the Company's commercial interests. The Company will disclose the extent to which the performance conditions are met after the end of the performance period. The Remuneration Committee is conscious of the Regulations and the new 2014 Code requirement for transparent performance targets so will consider at a later date whether it remains appropriate not to disclose such targets in future.

The performance conditions for the 2014 LTIP awards will be tested in relation to the financial year ending in 2016 to determine what percentage of the LTIP awards has been achieved, and will vest during 2017 to the extent that the performance condition has been achieved.

Vested: No LTIP awards vested during the period.

Sold: As no awards under the LTIP have vested, no shares held under the LTIP have been sold by an Executive Director.

Lapsed: The award of 533,536 conditional shares made to Jason Gissing under the 2013 award had not vested prior to Jason's retirement and consequently lapsed.

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 (£)	End of performance period	Exercise period
Tim Steiner	Option with nil exercise price	08/05/14	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	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	3,186,000	08/05/19	08/05/19 – 31/05/24

Granted: One-off awards under the GIP were made to three of the Executive Directors during the period, as approved by shareholders at the 2014 annual general meeting and made in accordance with the Directors' remuneration policy.

The GIP awards are options over shares in the Company with a nil exercise price. 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 closing price of the Company's ordinary shares on 8 May 2014 (being the GIP award grant date).

DIRECTORS' REMUNERATION REPORT

continued

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. All 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

The Remuneration Committee considered that the GIP would aim to incentivise and reward truly exceptional levels of performance over a five-year period. The potential for greater rewards for the Executive Directors was only if shareholders benefited from significant outperformance of the FTSE 100 sustained over a five-year period.

GIP awards will normally become exercisable following the end of the performance period to the extent that any applicable performance and other conditions have been satisfied and to the extent permitted under any operation of malus or clawback provisions. GIP awards will normally remain exercisable until 31 May 2024.

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: As no awards under the GIP have vested, no shares held under the GIP have been sold by an Executive Director.

ESOS (AUDITED)

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

Director	Date of grant	30 November 2014	Exercise price (£)	1 December 2013	Exercise price (£)	Exercise period
Tim Steiner	16/05/05	200,000	1.15	200,000	1.15	16/05/08 – 15/05/15
Neill Abrams	16/05/05	100,000	1.15	100,000	1.15	16/05/08 – 15/05/15
Mark Richardson	31/05/09	70,000	1.20	70,000	1.20	31/05/12 – 30/05/19
Duncan Tatton-Brown	12/08/13	9,923	3.02	9,923	3.02	08/07/16 – 07/07/23
Former Directors						
Jason Gissing	16/05/05	—	1.15	200,000	1.15	16/05/08 – 15/05/15

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 new appointee Director, Duncan Tatton-Brown).

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

Exercised: Jason Gissing exercised 200,000 ESOS options with an exercise price of 115.00 pence per option. The gain made by Jason Gissing on the exercise of share options was £470,100.

Director	Number of options	Exercise price (£)	Date of exercise	Gain (£)
Jason Gissing	200,000	1.15	26/03/2014	470,100

During the period, Tim Steiner and Neill Abrams each signed an irrevocable instruction electing to exercise, on 13 May 2015, any remaining options held under the ESOS which were granted to them in May 2005, provided that the share price is higher than the exercise price on that date. They also elected to subsequently sell a sufficient number of shares to meet the cost of the exercise and any taxes and other related costs, and retain the balance of the shares outstanding from the exercise of the option and subsequent sale. The options are due to lapse on 16 May 2015. The instructions do not prevent the earlier exercise of the options. As at 20 January 2015, being the last practicable date prior to the publication of this Annual Report, the options had not been exercised earlier.

Director	Date of grant	Number of options	Exercise price (£)	Date to be exercised	Minimum share price for sale	Date irrevocable signed
Tim Steiner	16/05/05	200,000	1.15	13/05/2015	1.16	28/11/2014
Neill Abrams	16/05/05	100,000	1.15	13/05/2015	1.16	28/11/2014

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	Total face value of free shares and matching shares awarded in the year ²	Total SIP shares held 30/11/2014	SIP shares that became unrestricted ¹ in the period	Total unrestricted SIP shares held 30/11/2014
Tim Steiner	114	16	1,161	£3,640	1,291	—	—
Duncan Tatton-Brown	163	23	1,097	£3,462	1,283	—	—
Mark Richardson	208	29	1,097	£3,484	1,097	—	—
Neill Abrams	208	29	919	£2,932	1,156	—	—

1. Unrestricted shares (which are included in the total shares held as at 30 November 2014) 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 SIP was implemented by the Company during the period and 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 2014 under the terms of the SIP and the Directors' remuneration policy. "Free shares" are where 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 match 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 and matching shares are subject to a three-year forfeiture period, which is described in more detail on page 104. Partnership shares are purchased by the employees and therefore forfeiture does not apply. Free 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. Partnership shares purchased by employees will not be 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. Since the end of the period and 20 January 2015, 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 awarded	Face value of free shares and matching shares	Total SIP shares held 20/01/2015
Tim Steiner	78	11	—	£41.78	1,380
Duncan Tatton-Brown	79	11	—	£41.78	1,373
Mark Richardson	78	11	—	£41.78	1,423
Neill Abrams	78	11	—	£41.78	1,245

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

Sold: No shares held under the SIP have been sold by an Executive Director.

DIRECTORS' REMUNERATION REPORT continued

SHARESAVE SCHEME (AUDITED)

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

Director	Date of issue	30 November 2014	Exercise price (£)	1 December 2013	Exercise price (£)	Exercise period
Tim Steiner	01/10/13	2,987	3.01	2,987	3.01	01/12/16 – 31/05/17
	01/10/10	–	1.16	7,745	1.16	01/12/13 – 01/06/14
Neill Abrams	01/10/13	2,987	3.01	2,987	3.01	01/12/16 – 31/05/17
	01/10/10	–	1.16	7,745	1.16	01/12/13 – 01/06/14
Duncan Tatton-Brown	01/10/13	2,987	3.01	2,987	3.01	01/12/16 – 31/05/17
Former Directors						
Jason Gissing	19/03/12	–	0.91	9,846	0.91	01/05/15 – 01/11/15

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

Maturity: No awards matured under the Sharesave scheme during the period.

Exercised: Tim Steiner and Neill Abrams both exercised their options under the Sharesave scheme which matured on 1 December 2013, as set out in the table below. The options were originally issued at an option price which was discounted by 10% from the applicable market value of the Company's shares at the date of grant. Like all HMRC approved Save As You Earn schemes, options are issued on the same terms to all employees and therefore are not issued subject to performance conditions as they are not provided for under the scheme rules.

Director	Number of options	Exercise price (£)	Date of exercise	Share price on date of exercise (£)	Value at date of exercise (£)
Tim Steiner	7,745	1.16	26/03/2014	4.492	34,791
Neill Abrams	7,745	1.16	26/03/2014	4.492	34,791

Neither Tim Steiner nor Neill Abrams sold shares as a result of such option exercises.

No other Executive Directors exercised Sharesave options during the period.

Lapsed: Jason Gissing retired from the Company in May 2014 and consequently the 9,846 Sharesave options held by him lapsed prior to their maturity date of 1 May 2015.

CHAIRMAN'S SHARE MATCHING AWARD (AUDITED)

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

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

1. The face value of the award has been calculated using a price of 88.44 pence per share, being the volume weighted average share price of the Company's ordinary shares on the three trading days prior to 22 January 2013 (the date of the announcement of the Chairman's appointment). The basis for the award was to match up to £400,000 of Company shares where such shares were acquired by the Chairman.
2. The award is not subject to any performance conditions other than continued service.

SHARE PRICE AND OTHER OPTION INFORMATION

The closing market price of the Company's shares as at 28 November 2014, being the last trading day in the period ended 30 November 2014, was 325.00 pence per ordinary share (2013: 409.00 pence) and the share price range applicable during the period was 220.60 pence to 617.00 pence per ordinary share.

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

DILUTION

DILUTION LIMITS

Awards granted under the Company's Sharesave, 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 LTIP and 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. The Chairman's Share Matching Award was met by the new issue of shares on the date of grant. 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.

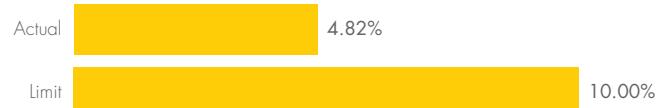
The dilution limits restrict the commitment to issue new ordinary shares or reissue treasury shares under all share schemes of the Group to 10% of the nominal amount of the Company's issued share capital and under the JSOS, the LTIP and the GIP (and any other selective share scheme) to 5% of the nominal 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 practical date prior to the publication date of this Annual Report, to issue new shares in respect of its share schemes assuming all performance conditions are met, all award holders remain in employment to the vesting date and all awards are settled in newly issued shares. For these purposes, no account is taken of ordinary shares allocated prior to the Company's Admission.

ALL SHARE PLANS



DISCRETIONARY SHARE PLANS



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 four financial years.

Year	Chief Executive Officer total remuneration (excluding JSOS) (£'000)	Chief Executive Officer total remuneration (including JSOS) (£'000)	AIP or bonus payment as a percentage of target achievement (%)	Value of AIP or bonus payment (£'000)	Long-term Incentives as a percentage of maximum opportunity (%)
2014	944	6,447	56	385	100
2013	1,011	1,011	93.8	528	0
2012	483	483	29.7	104	0
2011	379	987	0	0	100
2010	599	599	n/a	220	0

- 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).
- From 2010, the Company had the JSOS as the main form of long-term incentive plan. 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 the period (the value of such remuneration is noted in the single total figure of remuneration table). In 2011, the first tranche of JSOS shares vested in that period. The LTIP was implemented in 2013 but the first award has 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.
- For an explanation of JSOS and the theoretical remuneration represented in the Chief Executive Officer's total remuneration, see page 112.

DIRECTORS' REMUNERATION REPORT continued

CHIEF EXECUTIVE OFFICER PERCENTAGE CHANGE VERSUS REPRESENTATIVE EMPLOYEE GROUP

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

	Chief Executive Officer	All UK employees
Percentage change in salary from 2013 to 2014	22.2%	3.58% ²
Percentage change in taxable benefits from 2013 to 2014 ³	27.4%	27.3%
Percentage change in AIP earned from 2013 to 2014	(27)%	0% ¹

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 UK employees is on a per capita basis.
3. The change in benefits is due to an increase in the cost of private medical insurance by this proportion.

RELATIVE IMPORTANCE OF SPEND ON PAY

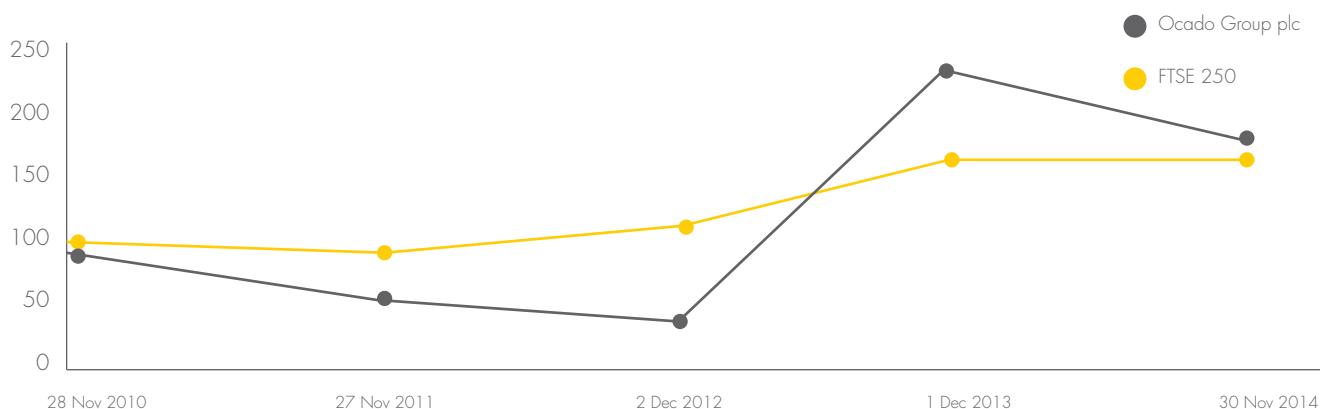
The following table shows the Company's profit/(loss), and total Group-wide expenditure on pay for all employees for the period and last financial year. The Company has not paid a dividend or carried out a share buyback in the current year or previous year. The information shown in this chart is:

- Profit/(loss) – Group profit/(loss) before tax taken from the table on page 139 of the financial statements.
- Total gross employee pay – total gross employment costs for the Group (including pension, variable pay, share-based payments and social security) as stated on page 149 of the financial statements.

	30 November 2014 (£m)	1 December 2013 (£m)
Profit/(loss) before tax	7.2	(12.5)
Total gross employee pay	190.5	156.7

TOTAL SHAREHOLDER RETURN

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



ANNUAL REPORT ON REMUNERATION – IMPLEMENTATION OF POLICY FOR 2015

INTRODUCTION

This part of the Directors' remuneration report sets out implementation of the Directors' remuneration policy for 2015.

SUMMARY OF CHANGES FOR EXECUTIVE DIRECTORS

This table briefly summarises the proposals for the Directors' remuneration arrangements for 2015 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, measures or structure of scheme (except a change in weighting of performance measures).	No change to the maximum opportunity for LTIP awards. Additional financial target.	New invitation to participate in Sharesave. Ongoing participation in the SIP.

BASE SALARY AND BENEFITS

The Remuneration Committee expects to finalise its annual review of the Executive Directors' base salaries later in 2015, 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

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

2015 AIP

The Remuneration Committee approved the implementation of an AIP for the Executive Directors applicable to the 2014/2015 financial year. This plan broadly reflects the framework of the 2014 AIP and 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 2014 AIP.

In order to align awards made under the AIP with the Group's focus on delivering key strategic objectives in 2015, the weighting towards the achievement of individual strategic objectives has been increased for the 2014/2015 financial year. The performance measures have been amended to 35% for Gross sales, 35% for Group EBITDA and 30% for performance measured against role-specific objectives. In 2015, the Gross sales target relates to the Group's retail sales and does not include any income or benefits from the Morrisons operation. The rationale for setting these performance measures has not changed from 2014. For an explanation, see the Annual report on remuneration on page 114.

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

DIRECTORS' REMUNERATION REPORT continued

2015 LTIP AWARDS

The Remuneration Committee approved the making of awards under the LTIP for the Executive Directors for the 2014/2015 Financial year. The amount of the LTIP awards is based on a percentage of salary, expected to be broadly in line with the percentages agreed for the 2014 LTIP awards and in line with the Directors' remuneration policy.

In accordance with the Directors' remuneration policy, the Remuneration Committee proposes to make 2015 LTIP award grants subject to earnings per share and Revenue performance conditions, as well as a third performance condition. The additional performance condition will be made-up of two measurable financial targets linked to the economic efficiency of the new proprietary infrastructure solution. The Remuneration Committee believes that this performance condition encourages the delivery of a crucial strategic objective of the Group, and provides a better basis for assessing performance for the performance period than the two measures alone that were used for the 2014 LTIP awards. The performance conditions concerning the financial performance of the Group, earnings per share and Revenue, will be focused on the Group's retail business performance only and will be weighted 25% each, while the new proprietary infrastructure solution performance condition will have a 50% weighting.

No LTIP award will vest unless a "threshold" level of performance condition has been achieved. At "threshold" performance, 25% of an LTIP award will vest and at "maximum" performance, 100% of an LTIP award will vest. Full vesting will occur where exceptional performance levels have been achieved and significant shareholder value created.

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

SIP

The Executive Directors are expected to continue their participation in the scheme in 2015.

SHARESAVE

The Executive Directors will be invited to participate in the next offer of Sharesave, expected to be made in 2015. In November 2014, all of the Executive Directors confirmed their intention to participate in the 2015 Sharesave.

CHANGES FOR NON-EXECUTIVE DIRECTORS AND CHAIRMAN

The review of remuneration of the Non-Executive Directors will be finalised in line with the timing of pay reviews for all of the Group's employees. There will be no change to the remuneration arrangements for the Chairman and currently no changes are expected for the Non-Executive Directors for 2015.

SHAREHOLDER APPROVAL AND VOTES AT AGM

The 2014 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 Directors' remuneration report and the GIP resolutions received significant shareholder votes against them (19.96% and 26.76% respectively) at the annual general meeting in May 2014 (see the table on the next page for the voting outcomes for the resolutions regarding remuneration at the previous annual general meeting). The Remuneration Committee had consulted with shareholders on the GIP and the Directors' remuneration policy and other key remuneration changes prior to the 2014 annual general meeting.

The Remuneration Committee will continue to seek the views of shareholders on any significant changes to the Directors' remuneration arrangements or any proposed exercises of discretion in relation thereto.

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
2014 AGM						
Approve the Directors' remuneration policy	426,933,076	87.15	62,969,024	12.85	499,692,970	9,790,870
Approve the 2013 Directors' remuneration report	399,764,910	80.04	99,701,426	19.96	499,693,161	226,825
Approve the Ocado Growth Incentive Plan	365,970,183	73.24	133,721,017	26.76	499,693,271	2,071
Approve the 2014 ESOS	481,882,997	97.10	14,373,969	2.90	499,692,971	3,436,005
2013 AGM						
Approve the 2012 Directors' remuneration report	349,776,432	76.54	107,184,194	23.46	461,418,179	4,457,553
Approve the Ocado Long Term Incentive Plan	360,235,983	86.40	56,698,838	13.60	461,418,179	44,483,358
Approve the Chairman's Share Matching Award	384,380,959	83.30	77,037,220	16.70	461,418,179	0
2012 AGM						
Approve the 2011 Directors' remuneration report	338,085,907	97.60	8,316,258	2.40	346,402,165	8,767,398

BASIS OF PREPARATION AND AUDIT REVIEW

This report is a Directors' remuneration report for the 52 weeks ended 30 November 2014, 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 2012 Code, the Regulations, the Listing Rules and the Disclosure and Transparency Rules. The report also makes reference to the new requirements of the 2014 Code, where appropriate.

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, PricewaterhouseCoopers 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

Chairman of the Remuneration Committee

Ocado Group plc

3 February 2015



Low price £ promise

COMPETITIVE
PRICES

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



OUR FINANCIALS

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View the Independent Auditors' Report on pages 132 to 138



View more information online at www.ocadogroup.com

INDEPENDENT AUDITORS' REPORT

to the members of Ocado Group plc

REPORT ON THE GROUP FINANCIAL STATEMENTS

OUR OPINION

In our opinion, Ocado Group plc's group financial statements (the "financial statements"):

- give a true and fair view of the state of the group's affairs as at 30 November 2014 and of its profit and cash flows for the 52 week period ("the period") then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

WHAT WE HAVE AUDITED

Ocado Group plc's financial statements comprise:

- the consolidated balance sheet as at 30 November 2014;
- the consolidated income statement and consolidated statement of comprehensive income for the period then ended;
- the consolidated statement of cash flows for the period then ended;
- the consolidated statement of changes in equity for the period then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report and Accounts, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

OUR AUDIT APPROACH

OVERVIEW



- Overall group materiality: £4 million which represents 0.4% of revenue.
- All active trading companies located in the UK, whose results taken together account for all material balances and line items within the consolidated financial statements, were audited by the UK engagement team.
- The UK engagement team also audited the group's joint venture with Wm Morrisons Supermarkets Plc ("Morrisons").
- Commercial income.
- Capitalisation of internal development costs.
- Share based payments.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus

COMMERCIAL INCOME

As described in the Audit Committee Report on page 76 and in the critical accounting estimates and judgements and accounting policies sections in the notes to the accounts (page 147), Ocado has three main streams of commercial income; promotional support; media income; and volume rebates (stated in order of value, highest to lowest).

This remains an area of focus due to the quantum of income recorded under these arrangements and its significance in relation to the result for the period. It is also an area of heightened focus in light of recent market announcements. The amount to be recognised in the income statement for elements of commercial income requires management to apply judgement based on the contractual terms in place with suppliers and estimates of amounts the group is entitled to where transactions span the financial period-end.

Promotional support and media income arrangements are typically structured to last for a four week duration and are settled with suppliers within a short period following the relevant service or promotion having been fulfilled. This income stream involves high volume, lower value arrangements and requires limited judgement or estimation by management in determining the amount that the group is entitled to. Notwithstanding the limited judgement involved, the magnitude of this income is highly material. Our focus was therefore whether an arrangement or agreement for the promotional support and media income recognised existed, whether the relevant promotion or media advertising had taken place and whether the income recognised was recorded in the appropriate period.

The third stream of commercial income, namely volume rebates, is the one which, in our view, involves the most judgement. Volume rebates are earned both on supply arrangements managed by Waitrose (as the group's supply partner) under the Waitrose sourcing agreement referred to on page 10 and on arrangements with direct suppliers to Ocado. Rebates earned under Waitrose managed supply arrangements are material to the group's results. Entitlement to income is based on the level of purchasing activity for the combined Ocado and Waitrose businesses, a judgement that is made more complex by the fact that the Waitrose accounting period end is two months later than that of Ocado.

How our audit addressed the area of focus

COMMERCIAL INCOME

Promotional support and media income

Our approach, specifically in relation to promotional income, was underpinned by testing key system controls, including those used to determine the amount of items sold under the terms of a supplier funded promotion arrangement. We determined that the testing of these controls provided us with audit evidence that promotional support income had been recorded appropriately and in the correct period. Our testing for promotions also included checking the computation of the amounts billed to suppliers.

We additionally reconciled the total value of promotion income recorded in Ocado's "Promotions" system for the period to the total value recognised in the general ledger and found no material reconciling items.

We independently confirmed the terms of a sample of individual promotion and media agreements, covering both the duration of the promotion / campaign and the quantum of promotional support per unit sold / the price charged for the campaign, directly with a range of suppliers, including requesting confirmation of items invoiced in the period and for amounts accrued at the period end, checking that the amount recognised was recorded in the correct period based on the suppliers' confirmation of details of the period the funding related to.

Similar to promotional income, we reconciled the total value of amounts recorded in Ocado's "Media" booking system to the total value of media income recorded in the financial statements and found no material reconciling items. We also selected a sample of individual media adverts in the period and checked that income relating to these adverts was recognised in the period.

VOLUME REBATES

In relation to income due from Waitrose under the terms of their supply arrangements, we visited the Waitrose head office and met with the members of the Waitrose Commercial Finance team responsible for determining rebates due to Ocado. We obtained and read a sample of supplier contracts negotiated by Waitrose and checked that there was an accrual for amounts due to Ocado in relation to these agreements, the accuracy of which we tested as set out below. We also considered how Waitrose determine their overall supplier volume rebate income and the associated Ocado share of this.

INDEPENDENT AUDITORS' REPORT continued

to the members of Ocado Group plc

Area of focus	How our audit addressed the area of focus
COMMERCIAL INCOME (continued)	VOLUME REBATES (continued) We agreed a sample of amounts invoiced by Ocado to Waitrose during the period by testing the settlement of these amounts by Waitrose. With respect to accrued income recognised as due from Waitrose at the period end, we obtained an independent confirmation from Waitrose at the period end as to their estimate of the uninvited amount due to Ocado for the full year. We checked that the amounts accrued by Ocado were consistent with the estimates and amounts confirmed by Waitrose. We also assessed the historical accuracy of estimates made by Ocado in relation to the estimate of the full year amount due to them from Waitrose noting that historic estimates in the last two years had proved highly accurate, based on amounts finally invoiced and settled.
	OVERALL COMMERCIAL INCOME In relation to the overall amounts recognised for all commercial income streams, we analysed the total amounts recognised each month for each stream, and compared these amounts to the equivalent month in the previous two years, to identify whether there were any unusual trends of significance in the amounts or timing of commercial income recognised in each period. No such items were identified.

Area of focus

CAPITALISATION OF INTERNAL DEVELOPMENT COSTS

As explained on pages 28 and 29, Ocado develops a significant amount of the software used to operate the systems and technology used in the business and are further developing additional technology to increase the efficiency and capacity of existing operations, and to support future international expansion. In the current period, as set out in notes 3.1 and 3.2 £21.6m of internal development costs have been capitalised within Intangible Assets and Property, Plant and Equipment.

We focussed on this area due to the size of the internal costs capitalised, and the fact that there is judgement involved in assessing whether the criteria set out in the accounting standards required for capitalisation of such costs have been met, particularly:

- The technical feasibility of the project; and
- The likelihood of the project delivering sufficient future economic benefits.

We had particular regard to the fact that the group is investing in new technology to support future expansion both in the UK and internationally, and therefore we focussed on whether the economic benefits of the various projects under development supported the amounts capitalised. This specifically included:

- Projects relating to the re-platforming of the group's technology to enable it to improve its ability to develop and operate and to expand internationally, where the economic benefit of a successful launch is only achieved in the longer term and is inherently, therefore, more judgemental, and
- Projects where there are significant judgements made as to the level of future economic benefits due to the innovative nature of some of the technology being developed.

As part of our work we also focussed on management's judgements regarding whether capitalised costs were of a developmental rather than research nature (which would result in the costs being expensed rather than capitalised); and whether costs, including employment (payroll) costs, were directly attributable to relevant projects.

In light of the development of new software and systems, we also focussed on whether the carrying value of existing capitalised software or systems was impaired.

How our audit addressed the area of focus

We obtained a breakdown, by value, of all individual internal development projects capitalised in the period and reconciled this to the amounts recorded in the general ledger, identifying no significant reconciling differences.

We tested all projects where capitalised costs were in excess of £250,000, together with a sample of smaller projects from the remaining population, as follows:

- We obtained explanations from management of why the project was considered to be capital in nature, in terms of how the specific requirements of the relevant accounting standards and other guidance, most notably of IAS 38, IAS 16 and SIC 32 (Web Site Costs) were met. We also conducted interviews with individual project development managers responsible for the projects selected to corroborate these explanations and to obtain an understanding of the specific projects to enable us to independently assess whether the projects met all the criteria for capitalisation set out in accounting standards. We found the explanations obtained from individual project managers to be consistent with those obtained from management, our understanding of developments in the business and supported management's assessment that the costs met the relevant capitalisation criteria.
- We challenged both management and the relevant development project managers as to whether the development of new software or systems superseded or impaired any of the existing assets on the balance sheet. We noted that, as disclosed in notes 3.1 and 3.2 an impairment charge of £2.6m was recorded in this regard, but did not identify any further indicators of impairment. We also applied our own understanding of both new and existing projects and considered whether, in our view, there were any projects where the software is no longer in use or its life was shortened by any development activity. We found no such items.

To determine whether costs were directly attributable to projects, we obtained listings of hours worked on individual projects and selected a sample of the individual hours recorded and met with the project manager of the relevant project to obtain an understanding of the project being worked upon and to confirm that the employee selected for testing was involved on the project and to ascertain the nature of the work they had been performing. We also checked the hours charged equated to the value of costs capitalised, by applying the standard charge out rate per employee to the timesheet hours, without exception.

We also tested the standard hourly rates, referred to above, that had been applied to the hours identified as appropriate for capitalisation by reconciling these to the hourly rate equivalent of the average salary of Ocado's technology development team. We agreed that the rates applied reflected an appropriate amount of internal development employee costs in each instance with no significant matters arising.

INDEPENDENT AUDITORS' REPORT continued

to the members of Ocado Group plc

Area of focus	How our audit addressed the area of focus
SHARE BASED PAYMENTS The group has in place a number of different share incentive schemes which are accounted for in accordance with IFRS 2 "Share based payments". These range from non-complex 'vanilla' share option plans to more complex Executive Director long term incentive schemes, details of which are explained in note 4.12. The accounting treatment differs for each scheme depending on the details of the individual scheme. For certain schemes, namely the "Growth Incentive Plan" and the "Long Term Incentive Plans", determining the appropriate accounting charge for the period requires various judgments to be made including the likelihood of specific performance criteria being met (e.g., 'Revenue' and 'Earnings Before Interest and Tax' targets and share price growth) which determines whether an award will crystallise, and the level of payout that will be achieved. We focussed on understanding the details of each scheme, the applicable criteria related to vesting, and assessing management's judgements around estimated achievement of the relevant performance criteria.	We obtained and read the contractual documentation underpinning all new schemes which came into force in the current period, in particular, the Growth Incentive Plan ("GIP") described in note 4.12, and updated our understanding of existing schemes. We discussed with management the accounting that they had applied, and together with our own independent evaluation of the contractual documentation, evaluated whether the accounting charge (where applicable) and disclosures in relation to each scheme were in accordance with IFRS 2, and determined that the treatment and disclosures relating to the schemes was consistent with the accounting requirements. We also re-performed the related calculations to check their arithmetical accuracy with no exceptions identified. Where the accounting charge to be recorded was dependent on judgement around the achievement of various performance criteria, including an assessment of achieving future targets, we challenged management's assumptions and compared them to the group's detailed business plans and forecasts and external market data, which we found to be materially consistent. We also had regard to the level of historical accuracy of management's projections. In addition, particularly in relation to the volatility assumption used in determining the GIP charge, we assessed the impact on the charge recorded if key judgements were adjusted to reflect a range of alternative potential outcomes. In light of the above, we found that the judgements made by management were reasonable and that the charge booked was not materially sensitive to what we considered to be a range of realistically possible alternative outcomes as to the levels of performance attained.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group, the accounting processes and controls, and the industry in which the group operates. As described in the Strategic Report, specifically on pages 18-29, the group's main trading activities are grocery retailing and the development and monetisation of intellectual property and technology for the online retailing, logistics and distribution of grocery and consumer goods, which is all undertaken in the UK.

Following a re-organisation during the period, the group's retailing, logistics and technology development operations were transferred into separate legal entities. The scope of our audit includes all active trading companies located in the UK, whose results taken together account for all material balances and line items within the consolidated financial statements. All entities are managed from one central location in the UK and all audit work is undertaken by the UK engagement team.

The group structure also includes a Joint Venture arrangement with Morrisons related to the provision of warehouse equipment in CFC2. The results of this entity are also audited by the UK engagement team. No audit work was deemed necessary in relation to the group's captive insurer in Malta or development operation in Poland as the results of these entities are immaterial to the overall consolidated financial statements.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall group materiality	£4 million (2013: £3.85 million).
How we determined it	0.4% of revenue.
Rationale for benchmark applied	We have applied revenue as a benchmark for determining materiality as we considered that this provides us with a consistent year-on-year basis for determining materiality, reflecting the group's growth and investment plans and levels of profitability, and which we believe is also a key measure used by the shareholders as a body in assessing the group's performance.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £200,000 (2013: £190,000) as well as any misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the directors' statement, set out on page 87, in relation to going concern. We have nothing to report having performed our review.

As noted in the directors' statement, the directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes that the group has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the group's ability to continue as a going concern.

OTHER REQUIRED REPORTING

CONSISTENCY OF OTHER INFORMATION

Companies Act 2006 opinion

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

• information in the Annual Report and Accounts is:	We have no exceptions to report arising from this responsibility.
— materially inconsistent with the information in the audited financial statements; or	
— apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or	
— otherwise misleading.	
• the statement given by the directors on page 88, in accordance with provision C.1.1 of the UK Corporate Governance Code ("the Code"), that they consider the Annual Report and Accounts taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the group's performance, business model and strategy is materially inconsistent with our knowledge of the group acquired in the course of performing our audit.	We have no exceptions to report arising from this responsibility.
• the section of the Annual Report and Accounts on page 78, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report arising from this responsibility.

INDEPENDENT AUDITORS' REPORT continued

to the members of Ocado Group plc

ADEQUACY OF INFORMATION AND EXPLANATIONS RECEIVED

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

DIRECTORS' REMUNERATION

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from these responsibilities.

CORPORATE GOVERNANCE STATEMENT

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the company's compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

OUR RESPONSIBILITIES AND THOSE OF THE DIRECTORS

As explained more fully in the Statement of Directors' Responsibilities set out on page 88, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

WHAT AN AUDIT OF FINANCIAL STATEMENTS INVOLVES

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OTHER MATTER

We have reported separately on the company financial statements of Ocado Group plc for the 52 week period ended 30 November 2014 and on the information in the Directors' Remuneration Report that is described as having been audited.

Andrew Latham (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
St Albans
3 February 2015

CONSOLIDATED INCOME STATEMENT

for the 52 weeks ended 30 November 2014

	Notes	52 weeks ended 30 November 2014 £m	52 weeks ended 1 December 2013 £m
Revenue			
Cost of sales	2.3	948.9	792.1
Gross profit		312.9	247.5
Other income	2.4	39.4	23.1
Distribution costs		(253.1)	(200.0)
Administrative expenses		(85.0)	(69.6)
Operating profit before result from joint venture and exceptional items		14.2	1.0
Share of result from joint venture	3.4	2.4	0.9
Exceptional items	2.7	(0.3)	(4.6)
Operating profit/(loss)		16.3	(2.7)
Finance income	4.5	0.4	0.4
Finance costs	4.5	(9.5)	(7.4)
Exceptional finance costs	2.7	—	(2.8)
Profit/(loss) before tax		7.2	(12.5)
Taxation	2.8	0.1	—
Profit/(loss) for the period		7.3	(12.5)

		pence	pence
Profit/(loss) per share			
Basic profit/(loss) per share	2.9	1.24	(2.16)
Diluted profit/(loss) per share	2.9	1.18	(2.16)

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

	Notes	52 weeks ended 30 November 2014 £m	52 weeks ended 1 December 2013 £m
Operating profit/(loss)		16.3	(2.7)
Adjustments for:			
Depreciation of property, plant and equipment	3.2	40.0	33.1
Amortisation expense	3.1	12.4	9.5
Impairment of property, plant and equipment	3.2	1.1	0.5
Impairment of intangible assets	3.1	1.5	0.8
Exceptional items [†]	2.7	0.3	4.6
EBITDA		71.6	45.8

[†] Included within exceptional items in the 52 weeks ended 1 December 2013 is a £0.2 million impairment reversal (see Note 2.7).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the 52 weeks ended 30 November 2014

	52 weeks ended 30 November 2014 £m	52 weeks ended 1 December 2013 £m
Profit/(loss) for the period	7.3	(12.5)
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Cash flow hedges		
– Gains arising on interest rate swaps	—	0.4
–	—	0.4
Items that may be subsequently reclassified to profit or loss		
Cash flow hedges		
– (Losses)/gains arising on forward foreign exchange contracts	(0.4)	0.5
– Losses/(gains) transferred to property, plant and equipment	0.3	(0.3)
Translation of foreign subsidiary	(0.1)	—
	(0.2)	0.2
Other comprehensive (expense)/income for the period, net of tax	(0.2)	0.6
Total comprehensive income/(expense) for the period	7.1	(11.9)

CONSOLIDATED BALANCE SHEET

as at 30 November 2014

	Notes	30 November 2014 £m	1 December 2013 £m
Non-current assets			
Intangible assets	3.1	38.4	27.0
Property, plant and equipment	3.2	275.2	224.3
Deferred tax asset	2.8	9.4	7.9
Available-for-sale financial asset	3.3	0.4	0.4
Investment in joint ventures	3.4	67.8	58.9
		391.2	318.5
Current assets			
Inventories	3.7	27.6	23.9
Trade and other receivables	3.8	43.1	45.2
Cash and cash equivalents	3.9	76.3	110.5
		147.0	179.6
Total assets		538.2	498.1
Current liabilities			
Trade and other payables	3.10	(136.5)	(130.0)
Borrowings	4.2	(4.4)	(3.3)
Obligations under finance leases	4.3	(26.5)	(25.0)
Derivative financial instruments	4.6	(0.2)	(0.2)
Provisions	3.11	(0.4)	(0.5)
		(168.0)	(159.0)
Net current (liabilities)/assets		(21.0)	20.6
Non-current liabilities			
Borrowings	4.2	(2.3)	(6.2)
Obligations under finance leases	4.3	(142.5)	(126.9)
Provisions	3.11	(5.2)	(3.2)
Deferred tax liability	2.8	(2.0)	(0.4)
		(152.0)	(136.7)
Net assets		218.2	202.4
Equity			
Share capital	4.11	12.5	12.4
Share premium	4.11	255.1	251.5
Treasury shares reserve	4.11	(51.8)	(52.4)
Reverse acquisition reserve	4.11	(116.2)	(116.2)
Other reserves	4.11	(0.3)	(0.1)
Retained earnings		118.9	107.2
Total equity		218.2	202.4

The notes on pages 144 to 187 form part of these financial statements. The consolidated financial statements on pages 139 to 143 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

CONSOLIDATED STATEMENT OF CASH FLOWS

for the 52 weeks ended 30 November 2014

	Notes	52 weeks ended 30 November 2014 £m	52 weeks ended 1 December 2013 £m
Cash flows from operating activities			
Profit/(loss) before tax		7.2	(12.5)
Adjustments for:			
— Depreciation, amortisation and impairment losses	3.1, 3.2	55.0	43.7
— Movement in provisions	3.11	1.9	0.6
— Share of profit in joint venture	3.4	(2.4)	(0.9)
— Share-based payments charge	2.6	4.4	3.3
— Foreign exchange movements		0.1	—
— Net finance costs	2.7, 4.5	9.1	9.8
Changes in working capital:			
— Movement in inventories		(3.6)	(6.4)
— Movement in trade and other receivables		(1.5)	(13.7)
— Movement in trade and other payables		13.8	43.6
Cash generated from operations		84.0	67.5
Interest paid		(9.7)	(7.1)
Net cash flows from operating activities		74.3	60.4
Cash flows from investing activities			
Purchase of property, plant and equipment		(53.0)	(60.7)
Borrowing costs capitalised in property, plant and equipment		—	(1.1)
Purchase of intangible assets		(25.8)	(15.7)
Interest received		0.5	0.3
Net cash flows from investing activities		(78.3)	(77.2)
Cash flows from financing activities			
Proceeds from the issue of ordinary share capital net of transaction costs	4.11	3.7	3.8
Proceeds from the sale and leaseback of property, plant and equipment		—	53.5
Proceeds from the sale and leaseback of intangible assets		—	4.4
Repayment of borrowings		(2.9)	(2.5)
Repayments of obligations under finance leases		(30.5)	(21.6)
Settlement of forward foreign exchange contracts		(0.5)	0.1
Net cash flows from financing activities		(30.2)	37.7
Net (decrease)/increase in cash and cash equivalents		(34.2)	20.9
Cash and cash equivalents at the beginning of the period		110.5	89.6
Exchange adjustments		—	—
Cash and cash equivalents at the end of the period	3.9	76.3	110.5

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the 52 weeks ended 30 November 2014

	Notes	Share capital £m	Share premium £m	Treasury shares reserve £m	Reverse acquisition reserve £m	Other reserves £m	Retained earnings £m	Total equity £m
Balance at 2 December 2012		12.3	247.8	(53.9)	(116.2)	(0.7)	116.4	205.7
Loss for the period		—	—	—	—	—	(12.5)	(12.5)
Other comprehensive income:								
Cash flow hedges								
— Gains arising on forward foreign exchange contracts		—	—	—	—	0.5	—	0.5
— Gains arising on interest rate swaps		—	—	—	—	0.4	—	0.4
— Gains transferred to property, plant and equipment		—	—	—	—	(0.3)	—	(0.3)
Total comprehensive income/(expense) for the period ended 1 December 2013		—	—	—	—	0.6	(12.5)	(11.9)
Transactions with owners:								
Issues of ordinary shares		0.1	3.7	—	—	—	—	3.8
Share-based payments charge		—	—	—	—	—	3.3	3.3
Disposal of treasury shares		—	—	1.5	—	—	—	1.5
Total transactions with owners		0.1	3.7	1.5	—	—	3.3	8.6
Balance at 1 December 2013		12.4	251.5	(52.4)	(116.2)	(0.1)	107.2	202.4
Profit for the period		—	—	—	—	—	7.3	7.3
Other comprehensive income:								
Cash flow hedges								
— Losses arising on forward foreign exchange contracts	4.11	—	—	—	—	(0.4)	—	(0.4)
— Gains arising on interest rate swaps	4.11	—	—	—	—	0.3	—	0.3
Translation of foreign subsidiary	4.11	—	—	—	—	(0.1)	—	(0.1)
Total comprehensive income/(expense) for the period ended 30 November 2014		—	—	—	—	(0.2)	7.3	7.1
Transactions with owners:								
Issues of ordinary shares	4.11	0.1	3.6	—	—	—	—	3.7
Share-based payments charge		—	—	—	—	—	4.4	4.4
Disposal of treasury shares		—	—	0.6	—	—	—	0.6
Total transactions with owners		0.1	3.6	0.6	—	—	4.4	8.7
Balance at 30 November 2014		12.5	255.1	(51.8)	(116.2)	(0.3)	118.9	218.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SECTION 1 – BASIS OF PREPARATION

GENERAL INFORMATION

Ocado Group plc (hereafter "the Company") is a public limited company incorporated in England and Wales under the Companies Act 2006 (Registration number 07098618) and domiciled in the United Kingdom. The address of its registered office is Titan Court, 3 Bishops Square, Hatfield Business Park, Hatfield, Hertfordshire, AL10 9NE. The financial statements comprise the results of the Company and its subsidiaries (hereafter "the Group"), see Note 5.1. The financial period represents the 52 weeks ended 30 November 2014. The prior financial period represents the 52 weeks ended 1 December 2013.

The principal activities of the Group are described in the Strategic Report on pages 2 to 59.

BASIS OF PREPARATION

The financial statements have been prepared in accordance with the Listing Rules and the Disclosure and Transparency Rules of the UK Financial 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 1 December 2013 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 are satisfied that the Company and the Group as a whole have adequate resources to continue in operational existence for the foreseeable future (see page 146). Thus, they continue to adopt the going concern basis of accounting in preparing the financial information.

Standards, amendments and interpretations adopted by the Group in 2013/14 or issued that are effective, and are not material to the Group

The Group has considered the following new standards, interpretations and amendments to published standards that are effective for the Group during the financial year beginning 2 December 2013 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
IFRS 10 [†]	Consolidated Financial Statements	1 January 2013
IFRS 11 [†]	Joint Arrangements	1 January 2013
IFRS 12 [†]	Disclosures of Interests in Other Entities	1 January 2013
IAS 1 (amendments)	Presentation of financial statements	1 January 2013
IAS 27 (revised 2011) [†]	Separate financial statements	1 January 2013
IAS 28 (revised 2011) [†]	Investments in Associates and Joint Ventures	1 January 2013
Various	Amendments to various IFRSs and IASs including those arising from the IASB's annual improvements project.	Various

† These standards, amendments and interpretations were early adopted in the prior year. The Group concluded that they would not have a significant impact on the Group's financial statements.

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 2 December 2013, are not material to the Group and have not been adopted early:

		Effective Date
IFRS 2 (amendment)	Share-Based Payments	1 July 2014
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2017
Various	Amendments to various IFRSs and IASs including those arising from the IASB's annual improvements project.	Various

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 so as to obtain economic benefits from its activities. This is evident for all of the Group's subsidiaries per Note 5.1.

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 Group Income Statement using the equity method of accounting. Investments in joint ventures are carried in the Group 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.

Transactions and balances

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

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

Group companies

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

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.

Accounting policies that are significant due to the nature of business are set out below:

- Revenue recognition (Note 2.1);

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

- Cost of sales (Note 2.1);
- Segmental reporting (Note 2.2);
- Recognition of deferred tax assets (Note 2.8);
- Intangible assets (capitalisation of software costs) (Note 3.1);
- Exceptional items (Note 2.7);
- Share options and other equity instruments (Note 4.12); and
- Going concern basis including its effect on the impairment of assets (see below).

GOING CONCERN BASIS INCLUDING ITS EFFECT ON THE IMPAIRMENT OF ASSETS

The Group has significant cash reserves and maintains a mixture of short and medium-term debt and lease finance arrangements that are designed to ensure that it has sufficient available funds to finance its operations. The Board monitors rolling forecasts of the Group's liquidity requirements based on a range of precautionary scenarios to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. During the year the Group entered into a three-year £100 million revolving credit facility, which remains unutilised as at 30 November 2014.

After making appropriate enquiries and having considered the business activities and the Group's principal risks and uncertainties as set on pages 32 to 35, the Directors are satisfied that the Company and the Group as a whole have adequate resources to continue in operational existence for the foreseeable future, notwithstanding the Group's net current liabilities. Accordingly, the financial statements have been prepared on a going concern basis.

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

The Group is required to undergo an assessment of the future viability of assets grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Given the Group's current operating structure, the lowest level at which cash flows can reasonably be assessed is for the Group as a whole. The Board does not consider that any further impairment of assets is required. There are a large number of assumptions and estimates involved in calculating these future cash flow projections, including management's expectations of:

- Increase in revenue;
- Growth in EBITDA;
- Timing and quantum of future capital expenditure; and
- Estimation and cost of future funding.

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 receipts are included in revenue.

Revenue from the sale of goods is always recognised when the significant risks and rewards of ownership of the goods have been transferred to the customer, which is upon delivery of the goods to the customer's home. Revenue is recorded when the collection of the amount due is reasonably assured. Income from "Ocado Smart Pass", the Group's discounted pre-pay membership scheme, is recognised in the period to which it relates, on an accruals basis.

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.

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.

Cost of sales also includes monies received from suppliers in relation to the agreed funding of selected items that are sold by the Company 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 are less than one month in most cases and the invoicing for the activity occurs on a regular basis shortly after the promotions have ended.

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 firm 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 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 Company'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.

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 administered by Standard Life, and a defined contribution Money Purchase Scheme administered by People's Pensions. Employer contributions to the schemes are calculated as a percentage of salary based on length of scheme membership. Contributions are charged to the income statement in the period to which they relate.

Distribution costs

Distribution costs consist of all the costs incurred, excluding product costs, to the point of sale. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

2.1 PROFIT BEFORE TAX continued

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

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

The principal activities of the Group are currently managed as one segment. Consequently, all activities relate to this segment.

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

2.3 GROSS SALES

A reconciliation of revenue to gross sales is as follows:

	52 weeks ended 30 November 2014 £m	52 weeks ended 1 December 2013 £m
Revenue	948.9	792.1
VAT	66.3	50.4
Marketing vouchers	11.3	9.9
Gross sales	1,026.5	852.4

2.4 OTHER INCOME

A breakdown of other income is as follows:

	52 weeks ended 30 November 2014 £m	52 weeks ended 1 December 2013 £m
Media and other income	28.0	19.2
Rental income	11.4	3.9
	39.4	23.1

2.5 OPERATING PROFIT

	Notes	52 weeks ended 30 November 2014 £m	52 weeks ended 1 December 2013 £m
Operating profit is stated after charging/(crediting) the following:			
Cost of inventories recognised as an expense		621.1	530.4
Employment costs		168.9	137.3
Amortisation expense	3.1	12.4	9.5
Depreciation of property, plant and equipment	3.2	40.0	33.1
Impairment of property, plant and equipment, included in:	3.2	1.1	0.3
— Distribution costs		1.0	0.3
— Administrative expenses		0.1	0.2
— Exceptional items		—	(0.2)
Impairment of intangible assets, included in:			
— Administrative expenses	3.1	1.5	0.8
Loss on disposal of property, plant and equipment	3.2	—	0.1
Impairment of receivables	3.8	0.5	—
Operating lease rentals			
— Land and buildings		9.4	5.2
— Other leases		0.5	0.4
Net foreign exchange movements		(0.2)	0.1

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

	52 weeks ended 30 November 2014 £'000	52 weeks ended 1 December 2013 £'000
Fees payable to the Company auditor for the audit of the Parent Company and consolidation	60	48
— Statutory Group and Company audit	60	48
Fees payable to the Company auditor for other services		
— Statutory audit of subsidiaries	184	135
— Advisory support	35	40
— Audit-related services	28	27
	307	250

2.6 EMPLOYEE INFORMATION

Employment costs during the financial period were as follows:

	52 weeks ended 30 November 2014 £m	52 weeks ended 1 December 2013 £m
Staff costs during the period:		
Wages and salaries	165.8	138.4
Social security costs	14.6	12.1
Other pension costs	4.1	2.9
Share-based payment expense [†]	6.0	3.3
Total gross employment costs	190.5	156.7
Staff costs capitalised to intangible assets	(17.3)	(15.1)
Staff costs capitalised to property, plant and equipment	(4.3)	(4.3)
Total employment cost expense	168.9	137.3
Average monthly number of employees (including Executive Directors) by function		
Operational staff	6,001	4,967
Support staff	1,004	775
	7,005	5,742

[†] Included in the share-based payment expense is the IFRS 2 charge of £4.4 million and a £1.6 million provision for the payment of employer's NIC upon allotment of the share awards.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

2.7 EXCEPTIONAL ITEMS

	52 weeks ended 30 November 2014 £m	52 weeks ended 1 December 2013 £m
Corporate restructure	0.3	—
Set-up costs		
– CFC2	—	1.3
– Non-food	—	0.2
Impairment (reversal)	—	(0.2)
Strategic operating agreement		
– Legal and professional fees	—	3.3
– Exceptional finance costs	—	2.8
	0.3	7.4

Corporate restructuring

During the year, the Group undertook a corporate restructuring. The Group's business was split between a number of legal entities in order to reflect broadly the operational division of the business. To assist the restructuring the Group sought tax, accountancy and legal advice, for which a number of one-off costs were incurred.

Prior year

Set-up costs

During 2013, the Group incurred further costs relating to the set-up of CFC2 of £1.3 million (2012: £1.2 million), which first delivered customer orders in February 2013, and officially went live in March 2013, and the set-up of the non-food distribution centre of £0.2 million (2012: £0.3 million), which went live in January 2013.

Impairment of assets

During 2013, an impairment reversal of £0.2 million was identified as part of the review of the land, building and plant and machinery related to a former spoke site at Coventry.

Strategic operating agreement

In 2013, the Group announced its first strategic client for its IP and operating services with the signing of a 25-year agreement with Morrisons. To facilitate the finalisation of the agreement, a number of one-off costs were incurred by the Group which reflect services from professional advisers. The agreement also allowed the Group to repay its £100 million loan facility which resulted in the full amortisation of the prepaid arrangement fees from 2012. These one-off costs incurred amounted to £6.1 million.

2.8 TAXATION

Accounting policies

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

Current taxation

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

Deferred taxation

Deferred tax is recognised using the balance sheet liability method on temporary differences arising between the tax base of assets and liabilities and their carrying amount in the financial statements. Deferred tax is calculated at the tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of reversal of the temporary differences is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.8 TAXATION continued

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

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

Taxation – Income statement

	52 weeks ended 30 November 2014 £m	52 weeks ended 1 December 2013 £m
Recognised in the Income statement		
Current tax:		
UK corporation tax on profits of the period	—	—
Overseas corporation tax on profits of the period	0.1	—
Adjustments in respect of prior periods	(0.3)	—
Total current tax	(0.2)	—
Deferred tax:		
Adjustment in respect of prior periods	0.3	—
Origination and reversal of temporary differences	(0.2)	—
Total deferred tax	0.1	—
Income tax expense/(credit)	(0.1)	—

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

	52 weeks ended 30 November 2014 £m	52 weeks ended 1 December 2013 £m
Profit/(loss) before tax	7.2	(12.5)
Effective tax charge/(credit) at the UK tax rate of 21.7% (2013: 23.3%)	1.5	(2.9)
Effect of:		
Change in UK corporation tax rate	—	1.3
Utilisation of brought forward losses	(0.2)	—
Permanent differences	1.8	1.2
Difference in overseas tax rates	—	0.6
Release of deferred tax on capitalised R&D	(0.4)	—
Tax losses for which no deferred tax asset recognised	0.3	—
Temporary differences on which no deferred tax recognised	(3.1)	(0.2)
Income tax charge/(credit) for the period	(0.1)	—

As enacted in Finance Act 2013, the standard rate of corporation tax in the UK changed from 23% to 21% with effect from 1 April 2014. Accordingly, the effective rate for the period is 21.7%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

2.8 TAXATION continued

Taxation — Balance sheet

Movement in the deferred tax asset is as follows:

	Tax losses carry-forwards £m
As at 2 December 2012	7.9
Effect of change in UK corporation tax rate	(1.1)
Tax losses recognised through the Income statement	1.1
As at 1 December 2013	7.9
Effect of change in UK corporation tax rate	—
Tax losses recognised through the Income statement	1.5
As at 30 November 2014	9.4

As enacted in Finance Act 2013, the standard rate of corporation tax in the UK changed to 21% from 1 April 2014 and will change to 20% from 1 April 2015. Deferred tax has been provided at the rates enacted at the balance sheet date.

Movement in the unrecognised deferred tax asset is analysed below:

	Tax losses carry-forwards £m	Accelerated capital allowances £m	Derivative financial instruments £m	Other short-term timing differences £m	Total £m
As at 2 December 2012	56.7	17.1	0.1	0.1	74.0
Adjustment in respect of prior periods	—	0.7	—	—	0.7
Effect of change in UK corporation tax rate	(7.4)	(2.3)	—	—	(9.7)
Potential movement in the period unrecognised through:					
— Income statement	(1.0)	1.5	—	(0.1)	0.4
— Equity	—	—	(0.1)	—	(0.1)
As at 1 December 2013	48.3	17.0	—	—	65.3
Adjustment in respect of prior periods	—	—	—	—	—
Effect of change in UK corporation tax rate	—	—	—	—	—
Potential movement in the period unrecognised through:					
— Income statement	(0.7)	(2.0)	—	0.5	(2.2)
— Equity	—	—	—	—	—
As at 30 November 2014	47.6	15.0	—	0.5	63.1

As at 30 November 2014 the Group had approximately £285.3 million of unutilised tax losses (2013: approximately £279.5 million) available for offset against future profits. A deferred tax asset of £9.4 million (2013: £7.9 million) has been recognised in respect of £47.0 million (2013: £39.6 million) of such losses, the recovery of which is supported by the expected level of future profits of the Group. The recognition of the deferred tax asset is based on forecasted operating results calculated in approved business plans and a review of tax planning opportunities. Management have concluded that there is sufficient evidence for the recognition of the deferred tax asset of £9.4 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 analysed below:

	£m
As at 2 December 2012	(0.4)
Recognised through the Income statement	—
As at 1 December 2013	(0.4)
Recognised through the Income statement	(1.6)
As at 30 November 2014	(2.0)

For the year ended 30 November 2014 the Group has recognised a deferred tax liability of £2.0 million. Of this amount, £1.7 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 to the amortisation profile of the assets giving rise to the deferred tax liability. This liability will be unwound over the useful lives of the assets.

2.8 TAXATION continued

In a prior period, the Group recognised a deferred tax liability of £0.4 million in respect of intangible assets that management assessed as qualifying for research and development corporation tax relief. After corporation tax relief, the timing of tax deductions in respect of expenditure incurred on these assets differs to the amortisation profile of the assets giving rise to the deferred tax liability. This liability will be unwound over the useful lives of the assets.

2.9 PROFIT/(LOSS) PER SHARE

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

Diluted profit/(loss) 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 categories of potentially dilutive shares, namely share options and shares held pursuant to the JSOS.

For the year ended 1 December 2013 there was no difference in the weighted average number of shares used for the calculation of basic and diluted profit/(loss) per share as the effect of all potentially dilutive shares outstanding was anti-dilutive.

Basic and diluted profit/(loss) per share has been calculated as follows:

	52 weeks ended 30 November 2014	52 weeks ended 1 December 2013
	Number of shares (m)	Number of shares (m)
Issued shares at the beginning of the period, excluding treasury shares	582.5	578.3
Effect of share options exercised in the period	2.1	1.4
Effect of treasury shares disposed of in the period	0.3	0.3
Effect of shares issued in the period	—	—
Weighted average number of shares at the end of the period for basic earnings per share	584.9	580.0
Potentially dilutive share options and shares	29.4	—
Weighted average number of diluted ordinary shares	614.3	580.0
£m		
Profit/(loss) attributable to the owners of the Company	7.3	(12.5)
pence		
Basic profit/(loss) per share	1.24	(2.16)
Diluted profit/(loss) per share	1.18	(2.16)

The only transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of these financial statements were the exercise of 80,441 share options under the company ESOS scheme, 10,163 share options under the SAYE2 scheme, 46 under the SAYE3 scheme and the issue of 22,443 Partnership Shares under the SIP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

SECTION 3 – ASSETS AND LIABILITIES

3.1 INTANGIBLE ASSETS

Accounting policies

Intangible assets

Intangible assets comprise internally generated assets relating mainly to computer software and other intangible assets relating mainly to externally acquired computer software and assets, 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 seven years. Costs relating to the development of computer software for internal use are capitalised once all the development phase recognition criteria of IAS 38 "Intangible Assets" are met. When the software is available for its intended use, these costs are amortised in equal annual amounts over the estimated useful life of the software. Amortisation and impairment of computer software or licences are charged to administrative expenses in the period in which they arise. For the Group's impairment policy on non-financial assets see Note 3.2.

Amortisation on other 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	3–5 years, or the lease term if shorter
Other intangible assets	3–7 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 are 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 meet 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, 20% relates to asset additions within property, plant and equipment.

3.1 INTANGIBLE ASSETS continued

Estimation of useful life

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

	Internally generated assets £m	Other intangible assets £m	Total intangible assets £m
Cost			
At 2 December 2012	43.8	13.6	57.4
Additions	8.3	0.9	9.2
Internal development costs capitalised	15.1	—	15.1
Disposals	(9.2)	(1.1)	(10.3)
At 1 December 2013	58.0	13.4	71.4
Additions [†]	—	8.0	8.0
Internal development costs capitalised	17.3	—	17.3
Disposals	(9.7)	(8.2)	(17.9)
At 30 November 2014	65.6	13.2	78.8
Accumulated amortisation			
At 2 December 2012	(24.7)	(11.1)	(35.8)
Charge for the period	(8.6)	(0.9)	(9.5)
Impairment	(0.8)	—	(0.8)
Disposals	0.8	0.9	1.7
At 1 December 2013	(33.3)	(11.1)	(44.4)
Charge for the period	(11.5)	(0.9)	(12.4)
Impairment	(1.5)	—	(1.5)
Disposals	9.7	8.2	17.9
At 30 November 2014	(36.6)	(3.8)	(40.4)
Net book value			
At 1 December 2013	24.7	2.3	27.0
At 30 November 2014	29.0	9.4	38.4

[†] Included within other intangible assets additions is £4.2 million for the right to use land.

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

	30 November 2014 £m	1 December 2013 £m
Cost	13.2	12.8
Accumulated amortisation	(7.2)	(4.8)
Net book value	6.0	8.0

For the 52 weeks ended 30 November 2014, internal development costs capitalised represented approximately 68% (2013: 94%) of expenditure on intangible assets and 15% (2013: 8%) of total capital spend including property, plant and equipment.

3.2 PROPERTY, PLANT AND EQUIPMENT

Accounting policies

Property, plant and equipment

Property, plant and equipment excluding land are stated at cost less accumulated depreciation and any recognised impairment loss. Cost includes the original purchase price of the asset, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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3.2 PROPERTY, PLANT AND EQUIPMENT continued

Property, plant and equipment represents 51% of the total asset base of the Group in 2014 (2013: 45%). 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, and has provided the foundation for software used in some areas of CFC2, and is expected to provide part of the foundation of software used in future centres.

For more information on the Group's policy on capitalisation of borrowings costs, see Note 4.1.

Depreciation on other 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	25 years, or the lease term if shorter
Fixtures and fittings	5–10 years
Plant and machinery	3–20 years
Motor vehicles	2–7 years

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 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. Historically, changes in useful lives have not resulted in material changes to the Group's depreciation charge.

Impairment of non-financial assets

An annual impairment review is performed and assets which do not have indefinite useful lives are subject to an annual depreciation or amortisation charge. Assets that are subject to an annual amortisation or depreciation charge are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less 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).

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 Group as a whole. The Group prepares detailed forward projections which are constantly updated and refined. Based on these projections the Board does not consider that any further impairment of assets is required, other than that recognised in the income statement.

3.2 PROPERTY, PLANT AND EQUIPMENT continued

	Land and buildings £m	Fixtures, fittings, plant and machinery £m	Motor vehicles £m	Total £m
Cost				
At 2 December 2012 [†]	117.8	257.4	34.1	409.3
Additions	5.1	149.8	9.1	164.0
Disposals ¹	(80.6)	(110.4)	(4.3)	(195.3)
At 1 December 2013 [†]	42.3	296.8	38.9	378.0
Additions	13.2	67.2	12.6	93.0
Disposals ¹	(0.3)	(11.9)	(4.1)	(16.3)
At 30 November 2014[†]	55.2	352.1	47.4	454.7
Accumulated depreciation and impairment				
At 2 December 2012	(15.2)	(98.4)	(15.4)	(129.0)
Charge for the period	(2.0)	(24.2)	(6.9)	(33.1)
Impairment	0.2	(0.5)	—	(0.3)
Disposals	0.3	4.1	4.3	8.7
At 1 December 2013	(16.7)	(119.0)	(18.0)	(153.7)
Charge for the period	(1.8)	(30.0)	(8.2)	(40.0)
Impairment	(0.3)	(0.8)	—	(1.1)
Disposals	0.3	11.0	4.0	15.3
At 30 November 2014	(18.5)	(138.8)	(22.2)	(179.5)
Net book value				
At 1 December 2013	25.6	177.8	20.9	224.3
At 30 November 2014	36.7	213.3	25.2	275.2

† There were no capitalised borrowing costs in 2014 (2013: £1.9 million). The capitalisation rate for the prior period was the same as that incurred on the underlying borrowings, being LIBOR plus 3%. Borrowing costs were capitalised on specific borrowings which were wholly attributable to qualifying assets.

1. During 2013, the Group entered into a sale and 25-year leaseback transaction of its MHE relating to CFC2 to MHE JV Co. Of the £16.3 million disposals, £0.9 million relates to the sale of assets to MHE JVCo, all of which were leased back and are included in total additions of £93.0 million. Of the prior period disposals of £195.3 million, £115.2 million relates to the sale of assets to MHE JV Co, £112.1 million of which were leased back and are included in total additions of £164.0 million.

Included within property, plant and equipment is capital work-in-progress for land and buildings of £15.4 million (2013: £0.1 million) and capital work-in-progress for fixtures, fittings, plant and machinery of £20.1 million (2013: £5.2 million).

Of the prior period impairment charge, a reversal of £0.2 million has been included within exceptional costs (see Note 2.7).

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

	Land and buildings £m	Fixtures, fittings, plant and machinery £m	Motor vehicles £m	Total £m
At 1 December 2013				
Cost	29.3	171.9	38.1	239.3
Accumulated depreciation and impairment	(14.8)	(56.6)	(17.5)	(88.9)
Net book value	14.5	115.3	20.6	150.4
At 30 November 2014				
Cost	30.3	203.7	46.5	280.5
Accumulated depreciation and impairment	(16.3)	(73.9)	(21.6)	(111.8)
Net book value	14.0	129.8	24.9	168.7

There were no assets reclassified from owned assets to assets held under finance leases following asset-based financing arrangements (2013: £1.7 million).

Property, plant and equipment with a net book value of £13.3 million (2013: £14.0 million) has been pledged as security for the secured loans (Note 4.1).

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3.3 AVAILABLE-FOR-SALE FINANCIAL ASSETS

Accounting policies

Available-for-sale financial assets

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 intends to dispose of it within 12 months of the end of the reporting period. Management considers that the Group's investments fall within this category as explained below.

Investments

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

	30 November 2014 £m	1 December 2013 £m
Unlisted equity investment — cost and net book value	0.4	0.4

The unlisted equity investment comprises a 25% interest in Paneltex Limited ("Paneltex"), which has not been treated as an associated undertaking as the Group does not have significant influence over the company. In arriving at this decision, the Board has reviewed the conditions set out in IAS 28 "Investments in Associates" and concluded that despite the size of its holding it is unable to participate in the financial and operating policy decisions of Paneltex due to the position of the majority shareholder as Executive Managing Director. The relationship between the Group and the company is at arm's length.

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

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

3.4 INVESTMENT IN JOINT VENTURES

Accounting policies

The Group's share of the results of joint ventures is included in the Consolidated income statement and is accounted for using the equity method of accounting as provided under IFRS 11 "Joint Arrangements". 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 a 50% equity interest valued at £67.8 million (2013: £58.9 million) in MHE JV Co, a joint venture company in which Morrisons and the Company are the sole investors. During the year the Group injected a £6.5 million capital contribution into MHE JV Co to finance the acquisition of CFC2 fixed assets.

3.4 INVESTMENT IN JOINT VENTURES continued

The Group's share of profit after tax in MHE JVCo for the year is detailed as follows:

	52 weeks ended 30 November 2014 £m	52 weeks ended 1 December 2013 £m
Group share of revenue	2.7	1.0
Group share of expenses, inclusive of tax	(0.3)	(0.1)
Group share of profit after tax	2.4	0.9

At the period end, the Group's share of the net assets of MHE JVCo were valued at £67.8 million reflecting the £2.4 million Group share of profit after tax.

For the 52 weeks ended 30 November 2014 the entity, MHE JVCo Limited, has recognised net interest income of £5.4 million. Material amounts held on its balance sheet as at 30 November 2014 include £130.8 million of finance lease receivables, £4.8 million of property, plant and equipment, £2.7 million of cash and cash equivalents, and £3.5 million of trade and other payables, contributing towards net assets of £135.6 million. Other than as a finance lessor to the Group, MHE JVCo has no other significant operations.

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. If the business combination is achieved in stages, the acquisition date fair value of the Group's previously held investment in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Certain assets and liabilities are not recognised at their fair value at the date control was achieved as they are accounted for using other applicable IFRSs. These include deferred tax assets/liabilities (IAS 12 "Income Taxes"), any assets related to employee benefit arrangements (IAS 19 "Employee Benefits" and IFRS 2 "Share-Based Payment") and non-current assets held for sale or discontinued operations (IFRS 5 "Non-Current Assets Held for Sale").

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the valuation of the fair value of assets and liabilities acquired is still in progress. Those provisional amounts are adjusted during the measurement period of one year from the date control is achieved when additional information is obtained about facts and circumstances which would have affected the amounts recognised as of that date.

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 represents the difference between the fair value of the assets given in consideration and the fair value of identifiable assets, liabilities and contingent liabilities of the acquiree.

On 3 November 2014 Speciality Stores Limited, a Group subsidiary, acquired 100% of the issued share capital of Paws & Purrs Ltd, obtaining control of the entity. The principal activity of Paws & Purrs Ltd is the sale of pet products. It was acquired to further develop the non-food operations of the Group. Total consideration transferred was £15,000, acquiring £20,000 of gross assets and £5,000 of net assets resulting in a net cash outflow of £7,000. Goodwill of £10,000 has been recognised, being the consideration paid in excess of the value of acquired net assets.

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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 have a mix of grocery and non-food 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 comprise "Trade and other Receivables" in the 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. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement within administrative expenses. When a trade receivable is considered uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the income statement. The outcome depends on future events which are by their nature uncertain. In assessing the likely outcome, management bases its assessment on historical experience and other factors that are believed to be reasonable in the circumstances.

3.6 WORKING CAPITAL ACCOUNTING POLICIES continued

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

	30 November 2014 £m	1 December 2013 £m
Goods for resale	27.1	23.5
Consumables	0.5	0.4
	27.6	23.9

Write-downs of inventories recognised as an expense amounted to £0.2 million (2013: £0.5 million) in the Consolidated income statement.

3.8 TRADE AND OTHER RECEIVABLES

	30 November 2014 £m	1 December 2013 £m
Trade receivables	12.6	23.6
Less: provision for impairment of trade receivables	(3.0)	(0.5)
Net trade receivables	9.6	23.1
Other receivables	21.7	15.6
Prepayments	6.6	5.1
Accrued income	5.2	1.4
	43.1	45.2

Included within trade receivables is a balance of £0.8 million (2013: £12.3 million) owed by MHE JV Co.

Included in other receivables is £8.9 million (2013: £7.1 million) due from suppliers in relation to supplier-funded promotional activity and £5.5 million (2013: £6.2 million) due from suppliers in relation to volume-based rebate amounts.

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

	30 November 2014	1 December 2013
	Gross £m	Impairment £m
Not past due	30.9	34.7
Past due 0–3 months	6.7	5.7
Past due 3–6 months	1.3	0.1
Past due over 6 months	0.6	(0.1)
	39.5	40.7
	(3.0)	(0.5)

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

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3.8 TRADE AND OTHER RECEIVABLES continued

Trade receivables that are past due but not impaired amount to £7.6 million (2013: £5.4 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:

	30 November 2014 £m	1 December 2013 £m
Past due 0–3 months	6.4	5.4
Past due 3–6 months	1.1	—
Past due over 6 months	0.1	—
	7.6	5.4

3.9 CASH AND CASH EQUIVALENTS

	30 November 2014 £m	1 December 2013 £m
Cash at bank and in hand	76.3	110.5

£2.3 million (2013: £1.7 million) of the Group's cash and cash equivalents are held by the Group's captive insurance company to maintain its solvency requirements. Therefore, these funds are restricted and are not available to circulate within the Group on demand.

3.10 TRADE AND OTHER PAYABLES

	30 November 2014 £m	1 December 2013 £m
Trade payables	61.3	53.0
Taxation and social security	4.8	4.1
Accruals	46.6	42.0
Deferred income	23.8	30.9
	136.5	130.0

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 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 balance sheet date. The outcome 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.

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.

3.11 PROVISIONS continued

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 Group is liable to pay employer's NIC upon allotment of the share awards.

Unapproved schemes are the 2013 and 2014 Long Term Incentive Plan ("LTIP"), the Chairman's Share Matching Award and the Growth Incentive Plan ("GIP"). For more details on these schemes, refer to note 4.12.

During the year, 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 2 December 2012	0.5	2.1	—	2.6
Charged/(credited) to the income statement				
– additional provision	0.4	0.7	—	1.1
Unused during the period	(0.1)	—	—	(0.1)
Unwind of discount	—	0.1	—	0.1
As at 1 December 2013	0.8	2.9	—	3.7
Charged/(credited) to the income statement				
– additional provision	0.3	0.4	1.6	2.3
– unused amounts reversed	—	(0.1)	—	(0.1)
Used during the period	(0.2)	(0.1)	—	(0.3)
As at 30 November 2014	0.9	3.1	1.6	5.6

Analysis of total provisions as at 1 December 2013

	Insurance claims £m	Dilapidations £m	Employee incentive schemes £m	Total £m
Current	0.4	0.1	—	0.5
Non-current	0.4	2.8	—	3.2
	0.8	2.9	—	3.7

Analysis of total provisions as at 30 November 2014

	Insurance claims £m	Dilapidations £m	Employee incentive schemes £m	Total £m
Current	0.2	0.2	—	0.4
Non-current	0.7	2.9	1.6	5.2
	0.9	3.1	1.6	5.6

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 £0.2 million claims will be settled within 12 months of the balance sheet date, the exact timing of utilisation of the provision is uncertain.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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3.11 PROVISIONS continued

Dilapidations

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

The CFC1 lease expires in 2032, with leases for the spokes expiring between 2014 and 2068. Contractual amounts are due to be incurred at the end of the respective lease terms. The CFC2 lease expires in 2038.

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

Employee incentive schemes

The provision consists of the Cash LTIP 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. 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 upon allotment, 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 4.12 (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 exercised by participants. Vesting will occur between 2016 and 2019.

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.

Finance leases

Assets funded through finance leases are capitalised either as property, plant and equipment, or intangible assets, as appropriate, and are depreciated/amortised over their estimated useful lives or the lease term, whichever is shorter. The amount capitalised is the lower of the fair value of the asset or the present value of the minimum lease payments during the lease term, measured at the inception of the lease. The resulting lease obligations are included in liabilities, net of attributable transaction costs. Finance costs on finance leases are charged directly to the income statement on the effective interest rate basis.

Operating leases

Assets leased under operating leases are not recorded on the balance sheet. Rental payments are charged directly to the income statement on a straight-line basis.

Sale and leaseback

A sale and leaseback transaction is one where the Group sells an asset and immediately reacquires the use of the asset by entering into a lease with the buyer.

The leaseback transaction is classified as a finance lease when the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leasebacks are classified as operating leases.

For sale and finance leasebacks, any profit from the sale is deferred and amortised over the lease term. For sale and operating leasebacks, 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.

Critical accounting estimates and assumptions

The Group has a number of complex high value lease arrangements. The Group follows the guidance of IAS 17 "Leases" to determine the classification of leases as operating leases versus finance leases. The classification of a lease as a finance lease as opposed to an operating lease will change EBITDA as the charge made by the lessor will pass through finance charges and depreciation will be charged on the capitalised asset. Retained earnings may also be affected depending on the relative size of the amounts apportioned to capital repayments and depreciation. IAS 17 "Leases" requires the Group to consider splitting property leases into their component parts (i.e. land and building elements). As only the building elements could be considered as a finance lease, management must make a judgement, based on advice from suitable experts, as to the relative value of the land and buildings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

4.2 BORROWINGS AND FINANCE LEASES

	Notes	30 November 2014 £m	1 December 2013 £m
Current liabilities			
Borrowings		4.4	3.3
Obligations under finance leases	4.3	26.5	25.0
		30.9	28.3
Non-current liabilities			
Borrowings		2.3	6.2
Obligations under finance leases	4.3	142.5	126.9
		144.8	133.1
Total borrowings and finance leases		175.7	161.4

BORROWINGS

	Less than one year £m	Between one year and two years £m	Between two years and five years £m	Total £m
As at 1 December 2013				
Secured loans	3.3	4.0	2.2	9.5
Total borrowings	3.3	4.0	2.2	9.5
As at 30 November 2014				
Secured loans	4.4	1.8	0.5	6.7
Total borrowings	4.4	1.8	0.5	6.7

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

Principal amount £m	Inception	Secured over	Current interest rate	Instalment frequency	Final payment due	Carrying amount as at 30 November 2014 £m	Carrying amount as at 1 December 2013 £m
8.0	May 07	Property, plant and equipment	Clearing bank base rate + 3.0%	Quarterly	Feb 15	0.8	2.4
1.5	Dec 06	Freehold property	LIBOR + 2.75%	Quarterly	Feb 15	0.4	0.5
1.5	Feb 09	Freehold property	LIBOR + 2.75%	Quarterly	Feb 15	0.6	0.8
2.8	Dec 09	Freehold property	LIBOR + 2.75%	Quarterly	Dec 15	1.5	1.7
2.6	July 12	Freehold property	LIBOR + 2.75%	Quarterly	July 15	1.9	2.2
2.5	July 12	Property, plant and equipment	9.12%‡	Monthly	July 17	1.5	1.9
						6.7	9.5
Disclosed as:							
Current						4.4	3.3
Non-current						2.3	6.2
						6.7	9.5

‡ Calculated as the effective interest rate, the calculation of which includes an optional balloon payment at the end of the term.

During the year a three-year £100 million revolving credit facility was entered into with Barclays, HSBC, RBS and Santander. As at 30 November 2014 the facility remains unutilised. The facility contains restrictions concerning dividend payments and additional debt and leases.

4.3 OBLIGATIONS UNDER FINANCE LEASES

	30 November 2014 £m	1 December 2013 £m
Obligations under finance leases due:		
Within one year	26.5	25.0
Between one and two years	22.4	20.7
Between two and five years	56.0	46.3
After five years	64.1	59.9
Total obligations under finance leases	169.0	151.9

External obligations under finance leases are £38.2 million (2013: £39.2 million) excluding £130.8 million (2013: £112.7 million) payable to MHE JVCo, a joint venture company.

	30 November 2014 £m	1 December 2013 £m
Minimum lease payments due:		
Within one year	34.9	31.9
Between one and two years	29.3	26.8
Between two and five years	70.4	59.4
After five years	71.0	67.6
	205.6	185.7
Less: future finance charges	(36.6)	(33.8)
Present value of finance lease liabilities	169.0	151.9
Disclosed as:		
Current	26.5	25.0
Non-current	142.5	126.9
	169.0	151.9

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

4.4 ANALYSIS OF NET DEBT

Net debt

	Notes	30 November 2014 £m	1 December 2013 £m
Current assets			
Cash and cash equivalents	3.9	76.3	110.5
Current liabilities			
Borrowings	4.2	(4.4)	(3.3)
Obligations under finance leases	4.3	(26.5)	(25.0)
		(30.9)	(28.3)
Non-current liabilities			
Borrowings	4.2	(2.3)	(6.2)
Obligations under finance leases	4.3	(142.5)	(126.9)
		(144.8)	(133.1)
Total net debt		(99.4)	(50.9)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4.4 ANALYSIS OF NET DEBT continued

Net cash is £31.4 million (2013: £61.8 million), excluding finance lease obligations of £130.8 million (2013: £112.7 million) payable to MHE JV Co, a joint venture company. £2.3 million (2013: £1.7 million) of the Group's cash and cash equivalents are considered to be restricted and are not available to circulate within the Group on demand. For more information see Note 3.9.

Reconciliation of net cash flow to movement in net debt

	30 November 2014 £m	1 December 2013 £m
Net (decrease)/increase in cash and cash equivalents	(34.2)	20.9
Net decrease in debt and lease financing	33.4	24.1
Non-cash movements:		
— Assets acquired under finance lease	(47.7)	(122.4)
— Debt settled by third party	—	85.3
— Net movement in arrangement fees charged against loans	—	(3.6)
Movement in net debt in the period	(48.5)	4.3
Opening net debt	(50.9)	(55.2)
Closing net debt	(99.4)	(50.9)

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

Finance income and costs

Interest income is accounted for on an accruals basis using the effective interest method.

Finance costs comprise obligations on finance leases and borrowings and are recognised in the period in which they fall due.

Finance income and costs

	52 weeks ended 30 November 2014 £m	52 weeks ended 1 December 2013 £m
Interest on cash balances	0.4	0.4
Finance income	0.4	0.4
Borrowing costs		
— Obligations under finance leases	(8.7)	(4.7)
— Borrowings	(0.9)	(3.6)
Capitalised borrowing costs	—	1.1
Fair value movement in derivative financial instruments	0.1	(0.2)
Finance costs	(9.5)	(7.4)
Net finance costs	(9.1)	(7.0)

The fair value movement in derivative financial instruments arose from fair value adjustments on the Group's cash flow hedges.

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 30 November 2014 the Group's derivative financial instruments consist of forward foreign exchange contracts which are designated as cash flow hedges of highly probable forecast transactions.

4.6 DERIVATIVE FINANCIAL INSTRUMENTS continued

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 income statement in the periods when the hedged item affects profit or loss. When the hedged forecast transaction results in the recognition of property, plant and equipment, the gains or losses previously deferred in equity are included in the initial cost of the asset and are ultimately recognised in profit or loss within the depreciation expense. During the period all the Group's cash flow hedges were 100% effective and there is therefore no ineffective portion recognised in profit or loss.

	30 November 2014 £m	1 December 2013 £m
Derivative liability		
Forward foreign exchange contracts (cash flow hedges)	(0.2)	(0.2)

Forward foreign exchange contracts

The notional principal amounts of the outstanding forward foreign exchange contracts at 30 November 2014 were €3.8 million (2013: €21.8 million). The corresponding amount in sterling as at 30 November 2014 was £3.2 million (2013: £18.3 million).

The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next three months. Cumulative gains and losses recognised in the hedging reserve within other comprehensive income are £0.4 million of losses (2013: £0.4 million of gains). These gains are recognised in the income statement in periods during which the hedged forecast transaction affects the income statement, which for property, plant and equipment is over the useful life of the asset (3 to 10 years).

Interest rate swaps

In the previous financial year, the Group terminated all interest rate swaps upon repayment and cancellation of the £100 million credit facility. As a result, there were no notional amounts of interest rate swaps as at 30 November 2014, nor as at 1 December 2013.

4.7 FINANCIAL INSTRUMENTS

Accounting policies

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

The Group classifies its financial instruments in the following categories:

- Available-for-sale;
- Loans and receivables;
- Other financial liabilities at amortised cost; and
- Financial assets and liabilities at fair value through profit or loss.

The classification depends on the purpose for which the financial assets and liabilities were acquired. Management determines the classification of its financial instruments at initial recognition or in certain circumstances on modification.

Offsetting financial instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4.7 FINANCIAL INSTRUMENTS continued

Impairment of financial assets

Assets carried at amortised cost

The Group assesses whether there is objective evidence that a financial asset is impaired at the end of each reporting period. A financial asset is impaired and an impairment loss recognised if there is objective evidence of impairment as a result of a loss event that occurred after the initial recognition of the asset and the loss event has an impact on the estimated future cash flows of the financial assets that can be reliably estimated. The criteria that the Group uses to determine that there is objective evidence of an impairment loss include but are not limited to:

- Financial difficulty indicators;
- Breach of contract such as missed payments;
- Fraud;
- Bankruptcy; and
- Disappearance of an active market.

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

If, in a subsequent period, the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the Income statement.

Available-for-sale financial assets

Equity investments classified as available-for-sale and held at cost are reviewed annually to identify if an impairment loss has occurred. The amount of the impairment loss is measured as the difference between the carrying value of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses recognised in the income statement on equity investments are not reversed.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments carried at fair value in the 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 are all classified as level 2.

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

	Notes	30 November 2014		1 December 2013	
		Carrying value £'000	Fair value £'000	Carrying value £'000	Fair value £'000
Financial assets					
Cash and cash equivalents	3.9	76.3	76.3	110.5	110.5
Trade receivables	3.8	9.6	9.6	23.1	23.1
Other receivables (incl. accrued income, excl. prepayments)	3.8	26.9	26.9	17.1	17.1
Available-for-sale financial asset	3.3	0.4	0.4	0.4	0.4
Total financial assets		113.2	113.2	151.1	151.1
Financial liabilities					
Trade payables	3.10	(61.3)	(61.3)	(53.0)	(53.0)
Accruals	3.10	(46.6)	(46.6)	(42.0)	(42.0)
Borrowings	4.2	(6.7)	(6.7)	(9.5)	(9.6)
Finance lease obligations	4.3	(169.0)	(169.0)	(151.9)	(152.0)
Derivative liabilities	4.6	(0.2)	(0.2)	(0.2)	(0.2)
Total financial liabilities		(283.8)	(283.8)	(256.6)	(256.8)

4.7 FINANCIAL INSTRUMENTS continued

The derivative liabilities relate to forward foreign exchange 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 interest rate used to discount borrowings is based on a LIBOR plus margin measure blended for the type of security offered and was calculated as 3.0% (2013: 3.0%).

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

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 1 December 2013						
Financial assets as per the Balance sheet						
Cash and cash equivalents	3.9	—	110.5	—	—	110.5
Trade and other receivables (excluding prepayments)	3.8	—	40.1	—	—	40.1
Available-for-sale financial asset	3.3	0.4	—	—	—	0.4
Total		0.4	150.6	—	—	151.0
Financial liabilities as per the Balance sheet						
Trade payables	3.10	—	—	53.0	—	53.0
Accruals	3.10	—	—	42.0	—	42.0
Borrowings	4.2	—	—	9.5	—	9.5
Obligations under finance leases	4.3	—	—	151.9	—	151.9
Derivative liabilities	4.6	—	—	—	0.2	0.2
Total		—	—	256.4	0.2	256.6
As at 30 November 2014						
Financial assets as per the Balance sheet						
Cash and cash equivalents	3.9	—	76.3	—	—	76.3
Trade and other receivables (excluding prepayments)	3.8	—	36.5	—	—	36.5
Available-for-sale financial asset	3.3	0.4	—	—	—	0.4
Total		0.4	112.8	—	—	113.2
Financial liabilities as per the Balance sheet						
Trade payables	3.10	—	—	61.3	—	61.3
Accruals	3.10	—	—	46.6	—	46.6
Borrowings	4.2	—	—	6.7	—	6.7
Obligations under finance leases	4.3	—	—	169.0	—	169.0
Derivative liabilities	4.6	—	—	—	0.2	0.2
Total		—	—	283.6	0.2	283.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4.8 CREDIT RISK

Credit risk

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

Exposure to credit risk

The carrying value of these financial assets, as set out in Note 4.7, 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	30 November 2014 £m	1 December 2013 £m
At the beginning of the period		(0.5)	(0.3)
Provision for impairment of receivables		(2.5)	(0.2)
Uncollectable amounts written off		(0.5)	—
Recovery of amounts previously provided		0.5	—
At the end of the period	3.8	(3.0)	(0.5)

4.9 LIQUIDITY RISK

The Group has adequate cash resources to manage the short-term working capital needs of the business. The Group may need to negotiate sufficient future financing arrangements, however in the year a 3-year £100 million revolving facility was entered into with Barclays, HSBC, RBS and Santander, and as at 30 November 2014 the facility remained unutilised.

The Group monitors its liquidity requirements to ensure it has sufficient cash to meet operational needs. For further details see Note 4.13.

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	(53.0)	(53.0)	(53.0)	—	—	—
Accruals	3.10	(42.0)	(42.0)	(42.0)	—	—	—
Borrowings	4.2	(9.5)	(10.3)	(3.7)	(4.3)	(2.3)	—
Obligations under finance leases	4.3	(151.9)	(185.7)	(31.9)	(26.8)	(59.4)	(67.6)
Derivative liabilities	4.6	(0.2)	(0.2)	(0.2)	—	—	—
1 December 2013		(256.6)	(291.2)	(130.8)	(31.1)	(61.7)	(67.6)

4.9 LIQUIDITY RISK continued

	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	(61.3)	(61.3)	(61.3)	—	—	—
Accruals	3.10	(46.6)	(46.6)	(46.6)	—	—	—
Borrowings	4.2	(6.7)	(6.9)	(4.5)	(1.9)	(0.5)	—
Obligations under finance leases	4.3	(169.0)	(205.6)	(34.9)	(29.3)	(70.4)	(71.0)
Derivative liabilities	4.6	(0.2)	(0.2)	(0.2)	—	—	—
30 November 2014		(283.8)	(320.6)	(147.5)	(31.2)	(70.9)	(71.0)

4.10 MARKET RISK

Currency risk

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

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

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

	30 November 2014 £m	1 December 2013 £m
Cash and cash equivalents — EUR	0.7	0.6
Cash and cash equivalents — PLN	0.3	0.1
Trade payables at period end — EUR	(0.4)	(3.4)
Trade payables at period end — USD	(0.1)	—
Derivative liability (forward foreign exchange contracts) — EUR	(0.2)	(0.2)
	0.3	(2.9)

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

	30 November 2014	1 December 2013		
	Increase/ (decrease) in income £m	Increase/ (decrease) in equity £m	Increase/ (decrease) in income £m	Increase/ (decrease) in equity £m
10% appreciation of the euro	(0.1)	0.3	(0.4)	1.8
10% depreciation of the euro	0.1	(0.3)	0.4	(1.8)

A movement of the euro, as indicated, against sterling at 30 November 2014 would have increased/(decreased) equity and profit or loss by the amounts detailed above. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the period. The analysis assumes that all other variables remain constant.

Interest rate risk

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

	30 November 2014 £m	1 December 2013* £m
Fixed rate instruments		
Financial assets	50.8	76.4
Financial liabilities	(169.0)	(153.8)
Variable rate instruments		
Financial assets	25.5	34.0
Financial liabilities	(6.7)	(7.5)

* A financial liability with a value of £112.7 million as at 1 December 2013 has been reclassified from variable rate instruments to fixed rate instruments.

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4.10 MARKET RISK continued

Sensitivity analysis

An increase of 100 basis points (1.0%) in interest rates would increase equity and profit or loss by the amounts shown below. A rate of 100 basis points was 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.

	30 November 2014 £m	1 December 2013 £m
Equity		
Gain	—	—
Income		
Gain	0.1	0.1

4.11 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 30 November 2014, the number of ordinary shares available for issue under the Block Listing Facilities was 19,094,500 (2013: 6,221,636). These ordinary shares will only be issued and allotted when the shares under the relevant share incentive plan have been awarded 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 2 December 2012	614.6	12.3	247.8
Issues of ordinary shares	3.1	0.1	3.7
At 1 December 2013	617.7	12.4	251.5
Issues of ordinary shares	0.5	—	0.1
Allotted in respect of Joint Share Ownership Scheme	—	—	0.2
Allotted in respect of share option schemes	2.7	0.1	3.3
At 30 November 2014	620.9	12.5	255.1

Included in the total number of ordinary shares outstanding above are 34,810,561 (2013: 35,249,176) ordinary shares held by the Group's employee benefit trust (see Note 4.11(a)). The ordinary shares held by the trustee of the Group's employee benefit trust pursuant to the Joint Share Ownership scheme are treated as treasury shares in the Consolidated balance sheet in accordance with IAS 32 "Financial Instruments: Presentation". These ordinary shares have voting rights but these have been waived by the trustee (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 profit/(loss) per share calculation in Note 2.9 as basic profit/(loss) per share is calculated using the weighted average number of ordinary shares in issue during the period, excluding treasury shares.

4.11 SHARE CAPITAL AND RESERVES continued

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

	Notes	Treasury shares reserve £m	Reverse acquisition reserve £m	Fair value reserve £m
At 2 December 2012		(53.9)	(116.2)	(0.7)
Movement on derivative financial instrument	4.11(b)	—	—	0.6
Reacquisition of interest in treasury shares	4.11(a)	1.5	—	—
At 1 December 2013		(52.4)	(116.2)	(0.1)
Movement on derivative financial instrument	4.11(b)	—	—	(0.2)
Reacquisition of interest in treasury shares	4.11(a)	0.6	—	—
At 30 November 2014		(51.8)	(116.2)	(0.3)

(a) Treasury shares reserve

This reserve arose when the Group issued equity share capital under its JSOS, which is held in trust by the trustee of the Group's employee benefit trust. Treasury shares cease to be accounted for as such when they are sold outside the Group or the interest is transferred in full to the participant pursuant to the terms of the JSOS. Participant interests in unexercised shares held by participants are not included in the calculation of treasury shares; unvested interests of leavers which have been reacquired by the Group's employee benefit trust during the period are now accounted for as treasury shares. See Note 4.12(b) for more information on the JSOS.

(b) Other reserves

The fair value reserve comprises gains and losses on movements in the Group's cash flow hedges, which consist of foreign currency and interest rate hedges.

The acquisition by the Company of the entire issued share capital in 2010 of Ocado Limited was accounted for as a reverse acquisition under IFRS 3 (revised). Consequently the previously recognised book values and assets and liabilities have been retained and the consolidated financial information for the period to 30 November 2014 has been presented as if the Company had always been the parent company of the Group.

4.12 SHARE-BASED PAYMENTS

Accounting policies

Employee benefits

Employees (including Directors) of the Group receive part of their remuneration in the form of share-based payments, whereby, 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4.12 SHARE-BASED PAYMENTS continued

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 and the Cash LTIP (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 a cash-settled incentive scheme, the Cash LTIP.

The total expense for the period relating to employee share-based payment plans was £6.0 million (2013: £3.3 million), of which £4.4 million related to equity-settled share-based payment transactions and £1.6 million as a provision for the payment of employers' NIC upon allotment of HMRC unapproved equity-settled share schemes and for the Cash LTIP (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).

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

	Year of issue	30 November 2014	Exercise price (£)	1 December 2013	Exercise price (£)	Exercise period
Approved	2004	—	0.90	28,923	0.90	31/05/07-29/11/14
	2005	85,333	1.00	115,109	1.00	31/05/08-29/11/15
	2005	4,782	1.15	13,752	1.15	31/05/08-30/05/15
	2006	8,086	1.40	9,145	1.40	31/05/09-30/05/16
	2006	5,960	1.50	9,205	1.50	30/11/09-29/11/16
	2007	107,527	1.50	128,129	1.50	31/05/10-29/11/17
	2008	26,570	1.35	38,545	1.35	31/05/11-30/05/18
	2008	52,358	1.20	86,927	1.20	30/11/11-29/11/18
	2009	49,039	1.20	51,772	1.20	31/05/12-30/05/19
	2009	201,311	1.35	279,714	1.35	02/11/12-29/11/19
	2010	230,958	1.65	333,623	1.65	30/06/13-29/06/20
	2011	125,269	1.89	181,271	1.89	19/07/14-18/07/21
	2011	265,581	2.55	584,993	2.55	14/02/14-13/02/21
	2012	372,278	0.85	417,070	0.85	27/06/15-26/06/22
	2012	681,389	1.03	786,556	1.03	21/02/15-13/02/22
	2012	817,864	1.05	850,732	1.05	09/03/15-08/03/22
	2013	661,462	1.28	856,442	1.28	05/03/16-04/03/23
	2013	210,343	3.02	291,669	3.02	08/07/16-07/07/23
	2014	65,585	5.10	—	—	05/02/14-04/02/24
	2014	453,353	4.84	—	—	17/03/14-16/03/24
	2014	1,278	3.36	—	—	01/08/14-31/07/24
Total approved options		4,426,326		5,063,577		

4.12 SHARE-BASED PAYMENTS continued

	Year of issue	30 November 2014	Exercise price (£)	1 December 2013	Exercise price (£)	Exercise period
Unapproved	2005	—	1.00	754	1.00	30/11/08–29/11/15
	2005	354,150	1.15	582,950	1.15	16/05/08–29/11/15
	2007	50,833	1.50	50,833	1.50	31/05/10–30/05/17
	2009	122,600	1.20	122,600	1.20	31/05/12–30/05/19
	2012	135,166	1.05	112,076	1.05	09/03/15–08/03/22
	2014	13,512	3.27	—	—	08/08/14–07/08/24
	2014	29,962	3.36	—	—	01/08/14–31/07/24
	2014	25,756	4.84	—	—	17/03/14–16/03/24
Total unapproved options		731,979		869,213		
Total		5,158,305		5,932,790		

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

Year of issue	30 November 2014		1 December 2013		
	Number of share options	Exercise price (£)	Number of share options	Exercise price (£)	Exercise period
2005	31,116	1.15	53,001	1.15	31/05/08–30/05/15
2009	139,600	1.20	139,600	1.20	31/05/12–30/05/19
Total options subject to performance criteria	170,716		192,601		

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

	30 November 2014		1 December 2013	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at the beginning of the period	5,932,790	1.42	8,835,578	1.33
Granted during the period	603,779	4.75	1,479,220	1.71
Forfeited during the period	(522,409)	1.66	(1,722,506)	1.56
Exercised during the period	(855,855)	1.73	(2,659,502)	1.31
Outstanding at the end of the period	5,158,305	1.73	5,932,790	1.42
Exercisable at the end of the period	1,690,357	1.55	1,895,710	1.31

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 £4.64 (2013: £2.92).

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:

	30 November 2014	1 December 2013
Weighted average share price	£4.75	£1.71
Weighted average exercise price	£4.75	£1.71
Expected volatility	0.40	0.25
Weighted expected life — years	3.00	3.00
Risk-free interest rate	1.2%	3.5%
Expected dividend yield	0.0%	0.0%

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4.12 SHARE-BASED PAYMENTS continued

Given the immaturity of the Company's share history, the expected volatility was determined by considering the historic performance of the shares of a basket of companies similar to and including the Company. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. All share awards under the ESOS are equity-settled.

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

	30 November 2014			1 December 2013		
	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	372,278	7.6		0.85	417,070	8.6
0.90	—	—		0.90	28,923	0.8
1.00	85,333	0.9		1.00	115,863	1.9
1.03	681,389	7.2		1.03	786,556	8.2
1.05	953,030	7.3		1.05	962,808	8.3
1.15	358,932	0.5		1.15	596,702	1.5
1.20	223,997	4.4		1.20	261,299	5.4
1.28	661,462	8.3		1.28	856,442	9.3
1.35	227,881	4.8		1.35	318,259	5.8
1.40	8,086	1.5		1.40	9,145	2.5
1.50	164,320	2.6		1.50	188,167	3.6
1.65	230,958	5.6		1.65	333,623	6.6
1.89	125,269	6.6		1.89	181,271	7.6
2.55	265,581	6.2		2.55	584,993	7.2
3.02	210,343	8.6		3.02	291,669	9.6
3.27	13,512	9.7		—	—	—
3.36	31,240	9.7		—	—	—
4.84	479,109	9.3		—	—	—
5.10	65,585	9.2		—	—	—
Outstanding at the end of the period		5,158,305			5,932,790	

(b) JSOS

The JSOS is an executive incentive scheme which was introduced to incentivise and retain its Executive Directors and select members of senior management of the Group (the "Participants"). It is a share ownership scheme under which the Participants and Appleby Trust (Jersey) Limited, the Employee Benefit Trust Trustee, held at the Balance sheet date separate beneficial interests in 34,810,561 (2013: 35,249,176) ordinary shares which represents 5.6% (2013: 5.7%) of the issued share capital of the Company. Of these ordinary shares, 1,453,254 (2013: 1,453,254) are held by the Employee Benefit Trust on an unallocated basis.

Nature of interests

Interests take the form of a restricted interest in ordinary shares in the Company (the "Interest"). An Interest permits a Participant to benefit from the increase (if any) in the value of a number of ordinary shares in the Company ("Shares") over specified threshold amounts. In order to acquire an Interest, a Participant must enter into a joint share ownership agreement with the Employee Benefit Trust Trustee, under which the Participant and the Employee Benefit Trust Trustee jointly acquire the Shares and agree that 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.

4.12 SHARE-BASED PAYMENTS 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 the prior period, 2,953,675 Shares in which interests of Participants have lapsed were reallocated to the third group of Participants under the JSOS scheme ("JSOS3"). For JSOS1 and JSOS2 there are four tranches, each with their own hurdle price. For JSOS3 there are two tranches, each with their own hurdle price.

Tranche	JSOS1			JSOS2			JSOS3				
	Vesting date	Hurdle value	% of issue price	Tranche	Vesting date	Hurdle value	% of issue price	Tranche	Vesting date	Hurdle value	% of market price
1 (2011)	Jan 11	£1.73	115%	1 (2012)	June 12	£1.96	115%	1 (2013)	Jan 13	£1.70	230%–265% 244%–280%
2 (2012)	Jan 12	£1.91	127%	2 (2013)	June 13	£2.15	127%	2 (2014)	Jan 14	£1.80	
3 (2013)	Jan 13	£2.08	139%	3 (2014)	June 14	£2.36	139%	—	—	—	
4 (2014)	Jan 14	£2.28	152%	4 (2015)	June 15	£2.59	152%	—	—	—	

For JSOS1, Participants were required to purchase their Interest for 2.0% of the issue price. For JSOS2, the price was in a range of 7.1% to 10.8%, and for JSOS3, the price was in a range of 1.47% to 1.70% of the share price at date of issue. When an Interest vests, the 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%

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4.12 SHARE-BASED PAYMENTS continued

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

As the Interests in JSOS3 were reallocated from lapsed Interests in JSOS1 and JSOS2, the fair value of those Interests had been calculated in prior periods using the inputs disclosed in the tables above.

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

	30 November 2014		1 December 2013	
	Number of interests in Shares	Weighted average exercise price (£)	Number of interests in Shares	Weighted average exercise price (£)
Outstanding at the beginning of the period	33,795,922	1.99	34,851,845	1.99
Granted during the period	—	—	—	—
Forfeited during the period	—	—	—	—
Exercised during the period	(438,615)	2.02	(1,055,923)	1.82
Outstanding at the end of the period	33,357,307	2.00	33,795,922	1.99
Exercisable at the end of the period	32,503,642	1.98	23,934,156	1.90

(c) Non-employee share options

Options to subscribe for ordinary shares and convertible preference shares have been granted by Ocado Limited to non-employees. These options are equity-settled, and do not have any vesting criteria. As a result of the Group's restructuring, these options are now held over ordinary shares in Ocado Group plc.

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

Date of issue	30 November 2014		1 December 2013		Exercise period
	Number of share options	Exercise price (£)	Number of share options	Exercise price (£)	
Feb 02	—	0.90	886,700	0.90	04/02/02–04/02/17
Jan 04	435,300	1.03	435,300	1.03	03/01/04–03/01/18
Outstanding at the end of the period	435,300		1,322,000		

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

	30 November 2014		1 December 2013	Weighted average exercise price (£)
	Number of share options	Weighted average exercise price (£)	Number of share options	
Outstanding at the beginning of the period	1,322,000	0.95	1,322,000	0.95
Granted during the period	—	—	—	—
Forfeited during the period	—	—	—	—
Exercised during the period	(886,700)	0.90	—	—
Outstanding at the end of the period	435,300	1.03	1,322,000	0.95
Exercisable at the end of the period	435,300	1.03	1,322,000	0.95

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

	30 November 2014		1 December 2013	Weighted average remaining contractual life (years)		
	Exercise price (£)	Number of share options	Contractual life (years)			
	0.90	—	—	0.90	886,700	3.2
	1.03	435,300	3.1	1.03	435,300	4.1
Outstanding at the end of the period	435,300		1,322,000			

4.12 SHARE-BASED PAYMENTS continued

(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 a price which is determined at launch date; 85% of the market value in the case of the Group's first Sharesave Scheme ("SAYE1") and 90% of the market value in the case of the Group's second Sharesave Scheme ("SAYE2") and third Sharesave Scheme ("SAYE3").

At 30 November 2014 employees of the Company's subsidiaries held 1,528 (2013: 2,049) contracts in respect of options over 3,789,044 (2013: 5,031,578) shares. Details of the movement in the number of Sharesave options outstanding during each period are as follows:

	30 November 2014		1 December 2013	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at the beginning of the period	5,031,578	1.61	4,075,994	0.98
Granted during the period	—	—	1,577,602	3.01
Forfeited during in the period	(286,625)	2.37	(597,671)	1.02
Exercised during the period	(955,909)	1.16	(24,347)	1.02
Outstanding at the end of the period	3,789,044	1.67	5,031,578	1.61
Exercisable at the end of the period	22,347	1.39	—	—

(e) Long Term Incentive Plan

During the prior period, the Group introduced an equity-settled long term incentive plan ("LTIP") as approved by the Remuneration Committee and shareholders, under which shares are conditionally awarded to 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 the 2013 LTIP, the single performance condition is the Group's earnings before interest, tax and exceptional items ("EBIT") for the financial year ending November 2015 and for the 2014 LTIP, the performance conditions are the Group's revenue and profit/(loss) per share for the financial year ending December 2016.

The number of awards issued, adjusted to reflect the achievement of the performance conditions, will then vest during 2016 for the 2013 LTIP and 2017 for the 2014 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 this LTIP as at 30 November 2014 and changes during the year is presented below:

	Number of share awards 30 November 2014	Number of share awards 1 December 2013
Outstanding at the beginning of the period	3,365,852	—
Adjustment to share awards outstanding at the beginning of the period*	1,582,724	—
Granted during the period	672,808	3,365,852
Forfeited during the period	(533,536)	—
Outstanding at the end of the period	5,087,848	3,365,852

* The adjustment represents share awards in the prior period to selected members of senior management which were not disclosed in the prior period accounts. This did not impact the accounting entries.

There were no awards exercisable as at 30 November 2014 nor at 1 December 2013.

The Group recognised an expense of £3.8 million (2013: £2.3 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

4.12 SHARE-BASED PAYMENTS continued

(f) Chairman's Share Matching Award

During the prior period, the Group introduced the equity-settled Chairman's Share Matching Award, under which a one-off award of restricted shares were 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. This will vest three years from when the award was approved by the Remuneration Committee. There is no performance criteria to which vesting is subject.

These shares are restricted from being sold while he is on the Board and the shares are not allowed to be sold until the first anniversary of his ceasing to be a member of the Board.

A summary of the status of this Chairman's Share Matching Award as at 30 November 2014 and changes during the year is presented below:

	Number of share awards 30 November 2014	Number of share awards 1 December 2013
Outstanding at the beginning of the period	452,284	—
Granted during the period	—	452,284
Outstanding at the end of the period	452,284	452,284

The Group recognised an expense of £0.4 million (2013: £0.2 million) related to this award in the Consolidated income statement during the year.

(g) Growth Incentive Plan

During the period, 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:

	30 November 2014
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	5.00
Risk-free rate	1.96%
Expected dividend yield	0.0%
Valuation model	Monte Carlo Pricing

Expected correlation was determined with reference to the historic 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 historic 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.

4.12 SHARE-BASED PAYMENTS continued

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 30 November 2014 and changes during the year is presented below:

	Number of share awards 30 November 2014
Outstanding at the beginning of the year	—
Granted during the year	6,000,000
Outstanding at the end of the year	6,000,000

There were no awards exercisable as at 30 November 2014.

The Group recognised an expense of £0.9 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.

(h) Share Incentive Plan

During the year, 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 pretax 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 the annual base pay, subject to a maximum. Eligible employees are those with three months' service as at the grant date.

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 30 November 2014 and changes during the year is presented below:

	Partnership Shares	Matching Shares	Free Shares	Number of share awards 2014 Total
Outstanding at the beginning of the period	—	—	—	—
Granted during the period	53,410	7,283	400,258	460,951
Forfeited during the period	—	(94)	(17,115)	(17,209)
Released during the period	(696)	—	(54)	(750)
Sold during the period	—	—	—	—
Outstanding at the end of the period	52,714	7,189	383,089	442,992
Unrestricted at the end of the period	52,714	—	—	52,714

All Partnership Shares were unrestricted as at 30 November 2014. There were no unrestricted Matching Shares or Free Shares as at 30 November 2014.

In the year, the Group recognised an expense of £0.1 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

continued

4.13 CAPITAL MANAGEMENT

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

The Board closely manages trading capital, defined as net assets plus net debt. Net debt is calculated as total debt (obligations under finance leases and borrowings as shown in the Balance sheet), less cash and cash equivalents. The Group's net assets at the end of the period were £218.2 million (2013: £202.4 million) and it had net debt of £99.4 million (2013: £50.9 million).

The main areas of capital management revolve around working capital management and compliance with externally imposed financial covenants. In the period, the Group entered into a new unsecured three-year Revolving Credit Facility (RCF) with Barclays, HSBC, RBS and Santander. 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, discussed in Note 5.4.

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.

Given the Group's commitment to expand the business and the investment required to complete CFC3 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:

	Notes	30 November 2014 £m	1 December 2013 £m
Total facilities available		288.7	173.4
Facilities drawn down [†]	4.2	(175.7)	(161.5)
Undrawn facilities at end of period		113.0	11.9
Cash and cash equivalents gross of drawn overdraft facility	3.9	76.3	110.5
		189.3	122.4

[†] During the prior period, the Group repaid and cancelled its £100 million credit facility. Facilities drawn down also include the leaseback of MHE relating to CFC2 to MHE JV Co. In the prior period, excluded from the amount of facilities drawn down is £0.1 million relating to capitalised transaction costs. In the current period, there are £1.1 million of capitalised transaction costs relating to the £100 million revolving credit facility entered into with Barclays, HSBC, RBS and Santander.

SECTION 5 – OTHER NOTES

5.1 SUBSIDIARIES

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

	Principal activity	Proportion of share capital held	Country of incorporation
Ocado Holdings Limited	Holding company	100%	England and Wales
Ocado Retail Limited (formerly Ocado Limited)	Retail	100%	England and Wales
Ocado Information Technology Limited	Intellectual property	100%	Republic of Ireland
Ocado Polska Sp. Z.o.o	Technology	100%	Poland
Ocado Innovation Limited	Technology	100%	England and Wales
Ocado Operating Limited	Logistics and Distribution	100%	England and Wales
Ocado Central Services Limited	Business Services	100%	England and Wales
Speciality Stores Limited	Non-trading company	100%	England and Wales
Newco Beauty Limited	Non-trading company	100%	England and Wales
Jalapeno Partners Limited	Non-trading company	100%	England and Wales
Last Mile Technology Limited	Non-trading company	100%	England and Wales
Paws & Purrs Ltd	Retail	100%	England and Wales
Ocado Cell in Atlas Insurance PCC Limited	Insurance company	100%	Malta

In accordance with Section 410(2)(a) of the Companies Act, a full list of subsidiaries was annexed to the 2013 annual return and submitted to Companies House. A full list of subsidiaries will be submitted to Companies House with the 2014 annual return.

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

5.2 COMMITMENTS

CAPITAL COMMITMENTS

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

	30 November 2014 £m	1 December 2013 £m
Land and buildings	2.9	1.0
Property, plant and equipment	20.0	27.8
Total capital expenditure committed at the end of the period	22.9	28.8

Of the total capital expenditure committed at the current period end, £7.6 million relates to CFC3, £2.5 million relates to phase 2 of CFC2 and £1.5 million relates to technology related projects. The remainder relates to CFC1 upgrades and fleet expansion.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

5.2 COMMITMENTS continued

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 30 November 2014 the ageing profile of future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	30 November 2014 £'000	1 December 2013 £'000
Due within one year	12.0	10.0
Due after one year but less than five	34.6	32.1
Due after five years	123.7	115.8
Total commitment	170.3	157.9

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:

	52 weeks ended 30 November 2014 £m	52 weeks ended 1 December 2013 £m
Salaries and other short-term employee benefits	3.0	3.8
Salaries and other short-term employee benefits in respect of Directors retired during the year	0.2	—
Share-based payments	3.7	1.9
	6.9	5.7

Further information on the remuneration of Directors and Directors' interests in ordinary shares of the Company are disclosed in the Directors' remuneration report on pages 91 to 129.

Other related party transactions with key management personnel made during the period related to the purchase of professional services and amounted to £15,000 (2013: £11,000). All transactions were on an arm's length basis and no period end balances arose as a result of these transactions.

At the end of the period, there were no amounts owed by key management personnel to the Group (2013: £27,000). The prior period amounts arose in periods before relevant directorships were obtained.

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

5.4 RELATED PARTY TRANSACTIONS continued

Investment

The following transactions were carried out with Paneltex Limited, a company in which the Group holds a 25% interest. Further information on the Group's relationship with Paneltex Limited is provided in Note 3.3.

	52 weeks ended 30 November 2014 £m	52 weeks ended 1 December 2013 £m
Purchase of goods		
– Plant and machinery	—	0.1
– Consumables	0.4	0.9
	0.4	1.0

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 £7.2 million (2013: £4.0 million).

At period end, the Group owed Paneltex £19,000 (2013: £33,000).

Joint Venture

The following transactions were carried out with MHE JV Co, a joint venture company in which the Group holds a 50% interest:

	52 weeks ended 30 November 2014 £m	52 weeks ended 1 December 2013 £m
Sale of assets to MHE JVCo	—	116.0
Capital contributions made to MHE JVCo	6.5	—
Reimbursement of supplier invoices paid on behalf of MHE JVCo	34.9	—
Lease of assets from MHE JVCo	31.0	112.1
Capital element of finance lease instalments paid to MHE JVCo	15.7	0.3
Interest element of finance lease instalments accrued or paid to MHE JVCo	5.4	1.9

During the period the Group made a capital contribution of £6.5 million to MHE JVCo and paid lease instalments (including interest) of £21.1 million to MHE JVCo. 50% of these lease instalments were recovered by the Group from Morrisons. These funds are used by MHE JVCo to finance the acquisition of CFC2 fixed assets.

Included within trade and other receivables is a balance of £3.5 million owed by MHE JVCo (2013: £12.3 million). £2.7 million of this relates to a finance lease accrual which is included within other receivables (2013: £nil).

Included within trade and other payables is a balance of £0.8 million owed to MHE JVCo (2013: £8.4 million).

Included within obligations under finance leases is a balance of £130.8 million owed to MHE JVCo (2013: £112.7 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 30 November 2014.

INDEPENDENT AUDITORS' REPORT

to the members of Ocado Group plc

REPORT ON THE COMPANY FINANCIAL STATEMENTS

OUR OPINION

In our opinion, Ocado Group plc's company financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 30 November 2014 and of its cash flows for the 52 week period ("the period") then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

WHAT WE HAVE AUDITED

Ocado Group plc's financial statements comprise:

- the company balance sheet as at 30 November 2014;
- the company statement of cash flows for the period then ended;
- the company statement of changes in equity for the period then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report and Accounts, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

OTHER REQUIRED REPORTING

CONSISTENCY OF OTHER INFORMATION

Companies Act 2006 opinion

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)") we are required to report to you if, in our opinion, information in the Annual Report and Accounts is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; or
- otherwise misleading.

We have no exceptions to report arising from this responsibility.

ADEQUACY OF ACCOUNTING RECORDS AND INFORMATION AND EXPLANATIONS RECEIVED

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

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

We have no exceptions to report arising from this responsibility.

DIRECTORS' REMUNERATION

Directors' remuneration report – Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

OUR RESPONSIBILITIES AND THOSE OF THE DIRECTORS

As explained more fully in the Statement of Directors' Responsibilities set out on page 88, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

WHAT AN AUDIT OF FINANCIAL STATEMENTS INVOLVES

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OTHER MATTER

We have reported separately on the group financial statements of Ocado Group plc for the 52 week period ended 30 November 2014.

Andrew Latham (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

St Albans

3 February 2015

COMPANY BALANCE SHEET

as at 30 November 2014

	Notes	30 November 2014 £m	1 December 2013 £m
Non-current assets			
Investments	3.1	488.7	482.6
		488.7	482.6
Current assets			
Other receivables	3.3	203.2	155.5
Cash and cash equivalents	3.4	53.4	97.6
		256.6	253.1
Total assets		745.3	735.7
Current liabilities			
Trade and other payables	3.5	(1.2)	(0.5)
Provisions	3.6	(1.6)	—
		(2.8)	(0.5)
Net current assets		253.8	252.6
Net assets		742.5	735.2
Equity			
Share capital	4.1	12.5	12.4
Share premium	4.1	254.6	251.5
Retained earnings		475.4	471.3
Total equity		742.5	735.2

The Company financial statements on pages 190 to 203 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)
3 February 2015

COMPANY STATEMENT OF CASH FLOWS

for the 52 weeks ended 30 November 2014

	Notes	52 weeks ended 30 November 2014 £m	52 weeks ended 1 December 2013 £m
Cash flow from operating activities			
Loss before income tax		(0.3)	(0.2)
Adjustments for:			
– Finance income		(0.4)	(0.4)
– Finance costs		—	—
Changes in working capital:			
– Movement in other receivables		(47.7)	32.3
– Movement in trade and other payables		0.6	(9.0)
Net cash (outflow)/inflow from operations		(47.8)	22.7
Interest paid on behalf of Group undertakings		—	(0.1)
Net cash (outflow)/inflow from operating activities		(47.8)	22.6
Cash flow from investing activities			
Interest received		0.4	0.3
Decrease in short-term investment		—	—
Net cash from investing activities		0.4	0.3
Cash flow from financing activities			
Proceeds from issue of ordinary share capital net of transaction costs		3.2	3.8
Proceeds from borrowings received on behalf of group undertakings		—	—
Net cash from financing activities		3.2	3.8
Net (decrease)/increase in cash and cash equivalents		(44.2)	26.7
Cash and cash equivalents at beginning of period		97.6	70.9
Cash and cash equivalents at end of period	3.4	53.4	97.6

COMPANY STATEMENT OF CHANGES IN EQUITY

for the 52 weeks ended 30 November 2014

	Notes	Share capital £m	Share premium £m	Retained earnings £m	Total equity £m
Balance at 2 December 2012		12.3	247.8	468.2	728.3
(Loss)/profit for the period		—	—	(0.2)	(0.2)
Total comprehensive income/(expense) for the period ended 1 December 2013		—	—	(0.2)	(0.2)
Transactions with owners:					
— Issue of ordinary shares	4.1	0.1	3.7	—	3.8
— Share-based payments charge		—	—	3.3	3.3
Total transactions with owners		0.1	3.7	3.3	7.1
Balance at 1 December 2013		12.4	251.5	471.3	735.2
(Loss)/profit for the period		—	—	(0.3)	(0.3)
Total comprehensive income/(expense) for the period ended 30 November 2014		—	—	(0.3)	(0.3)
Transactions with owners:					
— Issue of ordinary shares	4.1	0.1	3.1	—	3.2
— Share-based payments charge		—	—	4.4	4.4
Total transactions with owners		0.1	3.1	4.4	7.6
Balance at 30 November 2014		12.5	254.6	475.4	742.5

NOTES TO THE COMPANY FINANCIAL STATEMENTS

SECTION 1 – BASIS OF PREPARATION

GENERAL INFORMATION

Ocado Group plc is incorporated in England and Wales and domiciled in the United Kingdom. The address of its registered office is Titan Court, 3 Bishops Square, Hatfield Business Park, Hatfield, Hertfordshire, AL10 9NE. The financial period represents the 52 weeks ended 30 November 2014 (prior period 52 weeks ended 1 December 2013).

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. The prior period financial statements have accordingly also been restated to the nearest hundred thousand unless otherwise stated. They have been prepared under the historical cost convention, except for financial instruments that have been measured at fair value.

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

EXEMPTIONS

The Directors have taken advantage of the exemption available under Section 408 of the Companies Act and not presented an income statement or a statement of comprehensive income for the Company alone. The loss for the period is £0.3 million (2013: loss £0.2 million).

Standards, amendments and interpretations adopted by the Company in 2013/14 or issued, are effective and do not have a material impact on the Company.

The Company has considered the following new standards, interpretations and amendments to published standards that are effective for the Company for the financial year beginning 2 December 2013 and concluded that they are either not relevant to the Company or that they would not have a significant impact on the Company's financial statements:

STANDARDS, AMENDMENTS AND INTERPRETATIONS EFFECTIVE FOR THE COMPANY, BUT NOT MATERIAL TO THE RESULTS AND FINANCIAL POSITION OF THE COMPANY

		Effective date
IFRS 10 [†]	Consolidated Financial Statements	1 January 2013
IFRS 11 [†]	Joint Arrangements	1 January 2013
IFRS 12 [†]	Disclosures of Interests in Other Entities	1 January 2013
IAS 1 (amendments)	Presentation of Financial Statements	1 January 2013
IAS 27 (revised 2011) [†]	Separate Financial Statements	1 January 2013
IAS 28 (revised 2011) [†]	Investments in Associates and Joint Ventures	1 January 2013
Various	Amendments to various IFRSs and IASs including those arising from the IASB's annual improvements project.	Various

[†] These standards, amendments and interpretations were early adopted in the prior year. The Group concluded that they would not have a significant impact on the Group's financial statements.

The following further new standards, interpretations and amendments to published standards and interpretations which are relevant to the Company have been issued but are not effective for the financial year beginning 2 December 2013 and have not been adopted early:

STANDARDS, AMENDMENTS AND INTERPRETATIONS EFFECTIVE FOR THE COMPANY BUT NOT MATERIAL TO THE RESULTS AND FINANCIAL POSITION OF THE COMPANY

		Effective date
IFRS 2 (amendment)	Share-Based Payments	1 July 2014
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2017
Various	Amendments to various IFRSs and IASs including those arising from the IASB's annual improvements project.	Various

NOTES TO THE COMPANY FINANCIAL STATEMENTS

continued

ACCOUNTING POLICIES

Foreign currency translation

Transactions and balances

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

Taxation

Tax is recognised in the Income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity respectively.

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

Critical accounting estimates and assumptions

The preparation of the Company financial statements requires the use of certain judgements, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

SECTION 2 – RESULTS FOR THE YEAR

2.1 PROFIT BEFORE TAX

Accounting policies

Administrative expenses

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

2.2 OPERATING LOSS

During the period, the Company obtained audit services from its auditors, PricewaterhouseCoopers LLP, to the amount of £0.06 million (2013: £0.05 million).

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 4.2.

SECTION 3 – ASSETS AND LIABILITIES

3.1 INVESTMENTS

Accounting policies

Investments in Group companies are valued at cost less accumulated impairment.

Investments

	30 November 2014 £m	1 December 2013 £m
Cost	482.6	476.5
Contributions to subsidiaries:		
– Novation of derivative liability in respect of warrants issued by Ocado Limited	—	1.1
– Group share-based payments	6.1	5.0
Carrying value at end of period	488.7	482.6

Investments represent investments in Group companies, Ocado Holdings Limited and Ocado Innovation Limited. For more information regarding the Company's investments see Note 5.1.

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

3.2 WORKING CAPITAL

Accounting policies

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period which are classified as non-current assets. The Company's loans and receivables comprise "Other receivables" and "Cash and cash equivalents" in the Balance sheet.

Other receivables

Other receivables are non-interest bearing and are recognised initially at fair value, and subsequently at amortised cost, reduced by appropriate allowances for estimated irrecoverable amounts. 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

	30 November 2014 £m	1 December 2013 £m
Accrued income	0.2	0.1
Amounts due from subsidiary undertakings	203.0	155.2
	203.2	155.3

NOTES TO THE COMPANY FINANCIAL STATEMENTS

continued

3.4 CASH AND CASH EQUIVALENTS

	30 November 2014 £m	1 December 2013 £m
Cash at bank and in hand	53.4	97.6

3.5 TRADE AND OTHER PAYABLES

	30 November 2014 £m	1 December 2013 £m
Other payables	0.4	0.5
Amounts due to subsidiary undertakings	0.8	—
	1.2	0.5

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 employer's NIC upon allotment of the share awards.

Unapproved schemes are the 2013 and 2014 Long Term Incentive Plan ("LTIP"), the Chairman's Share Matching Award and the Growth Incentive Plan ("GIP"). For more details on these schemes, refer to note 4.12.

During the year, 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	Total £m
As at 2 December 2012	—	—
Charged/(credited) to the Income statement	—	—
— additional provision	—	—
Unused during the period	—	—
Unwind of discount	—	—
As at 1 December 2013	—	—
Charged/(credited) to the Income statement	—	—
— additional provision	—	—
— unused amounts reversed	—	—
Used during the period	—	—
Unwind of discount	—	—
As at 30 November 2014	1.6	1.6

3.6 PROVISIONS continued

Analysis of total provisions as at 30 November 2014

	Employee incentive schemes £m	Total £m
Current	—	—
Non-current	1.6	1.6
	1.6	1.6

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. 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 employer's NIC on the value of the cash award upon 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 4.12 (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 exercised by participants. Vesting will occur between 2016 and 2019.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

continued

SECTION 4 – CAPITAL STRUCTURE AND FINANCING COSTS

4.1 SHARE CAPITAL AND PREMIUM

Accounting policies

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

Share capital and premium

Included in the total number of ordinary shares outstanding below are 34,810,561 (2013: 35,249,176) ordinary shares held by the Group's employee benefit trust (see Note 4.11(a) in the Consolidated financial statements). The ordinary shares held by the trustee of the Group's employee benefit trust pursuant to the Joint Share Ownership Scheme are treated as treasury shares in the Group's Consolidated balance sheet in accordance with IAS 32 "Financial Instruments: Presentation". These ordinary shares have voting rights but these have been waived by the trustee. The number of allotted, called up and fully paid shares, excluding treasury shares, at the end of each period differs from that used in the basic profit/(loss) per share calculation in Note 2.9 of the Consolidated financial statements, as basic profit/(loss) per share is calculated using the weighted average number of ordinary shares in issue during the period, excluding treasury shares.

At 30 November 2014, the number of ordinary shares available for issue under the Block Listing Facilities was 19,094,500 (2013: 6,221,636). 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 (m)	Ordinary shares £m	Share premium £m
At 2 December 2012	614.6	12.3	247.8
Issues of ordinary shares	—	—	—
Allotted in respect of share option schemes	3.1	0.1	3.7
At 1 December 2013	617.7	12.4	251.5
Issues of ordinary shares	0.5	—	0.1
Allotted in respect of share option schemes	2.7	0.1	3.0
At 30 November 2014	620.9	12.5	254.6

4.2 SHARE-BASED PAYMENTS

For more information on the Group's share schemes, see Note 4.12 to the Consolidated financial statements.

4.3 FINANCIAL INSTRUMENTS

Accounting policies

Financial assets and financial liabilities are recognised on the Balance sheet when the Company becomes a party to the contractual provisions of the instrument. The Company classifies its financial instruments into available-for-sale, loans and receivables, and other financial liabilities at amortised cost.

The classification depends on the purpose for which the financial assets and liabilities were acquired. Management determines the classification of its financial instruments at initial recognition or in certain circumstances on modification.

Offsetting financial instruments

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

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.

4.3 FINANCIAL INSTRUMENTS continued

	Notes	30 November 2014		1 December 2013	
		Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets					
Investments	3.1	488.7	488.7	482.6	482.6
Cash and cash equivalents	3.4	53.4	53.4	97.6	97.6
Other receivables	3.3	203.2	203.2	155.5	155.5
Total financial assets		745.3	745.3	735.7	735.7
Financial liabilities					
Trade and other payables	3.5	(1.2)	(1.2)	(0.5)	(0.5)
Total financial liabilities		(1.2)	(1.2)	(0.5)	(0.5)

4.4 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 provides for irrecoverable debts when there are indicators that a balance may not be recoverable.

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

	Notes	30 November 2014		1 December 2013	
		Gross £m	Impairment £m	Gross £m	Impairment £m
Not past due		203.2	—	155.5	—
Past due 0–3 months		—	—	—	—
Past due 3–6 months		—	—	—	—
Past due over 6 months		—	—	—	—
	3.3	203.2	—	155.5	—

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

4.5 LIQUIDITY RISK

To manage the working capital needs of the business, the Group entered into a three-year £100 million revolving credit facility with Barclays, HSBC, RBS and Santander. As at 30 November 2014 the facility remains unutilised. The Company monitors cash flow as part of its day-to-day control procedures and the Board considers cash flow projections on a monthly basis. For further details on the Group's capital management strategy see Note 4.13 in the Consolidated financial statements.

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

	Notes	Carrying value £m	Contractual cash flows £m	1 year or less £m	1–2 years £m	2–5 years £m	More than 5 years £m
Financial liabilities							
Trade payables and other payables	3.5	(0.5)	(0.5)	(0.5)	—	—	—
1 December 2013		(0.5)	(0.5)	(0.5)	—	—	—

NOTES TO THE COMPANY FINANCIAL STATEMENTS continued

4.5 LIQUIDITY RISK continued

	Notes	Carrying value £m	Contractual cash flows £m	1 year or less £m	1–2 years £m	2–5 years £m	More than 5 years £m
Financial liabilities							
Trade payables and other payables	3.5	(1.2)	(1.2)	(1.2)	—	—	—
30 November 2014		(1.2)	(1.2)	(1.2)	—	—	—

4.6 MARKET RISK

Currency risk

The Company engages in foreign currency transactions to a very limited extent. No financial assets are held in foreign currencies. Due to the Company's lack of exposure to currency risk, no sensitivity analysis has been performed.

Interest rate risk

The Company has no interest bearing financial liabilities and its interest bearing financial assets consist of only cash and cash equivalents and certain amounts due from subsidiary undertakings. These financial assets are exposed to interest rate risk as the Company holds money market deposits at floating interest rates. The risk is managed by investing cash in a range of cash deposit accounts with UK banks split between fixed-term deposits, notice accounts and money market funds.

At the Balance sheet date the interest rate profile of the Company's interest bearing financial instruments was:

	30 November 2014 £m	1 December 2013 £m
Fixed rate instruments		
Financial assets	33.2	67.5
Variable rate instruments		
Financial assets	20.2	30.1

Sensitivity analysis

An increase of 100 basis points (1.0%) in interest rates would increase equity and profit or loss by the amounts shown below. A rate of 100 basis points was 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.

	30 November 2014 £m	1 December 2013 £m
Equity		
Gain	—	—
Income		
Gain	0.2	0.2

4.7 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 1 December 2013					
Financial assets					
Investments	3.1	482.6	—	—	482.6
Cash and cash equivalents	3.4	—	97.6	—	97.6
Other receivables	3.3	—	155.5	—	155.5
Total		482.6	253.1	—	735.7
Trade and other payables	3.5	—	—	(0.5)	(0.5)
Total		—	—	(0.5)	(0.5)

	Notes	Available-for-sale £m	Loans and receivables £m	Other financial liabilities at amortised cost £m	Total £m
As at 30 November 2014					
Financial assets					
Investments	3.1	488.7	—	—	488.7
Cash and cash equivalents	3.4	—	53.4	—	53.4
Other receivables	3.3	—	203.2	—	203.2
Total		488.7	256.6	—	745.3
Trade and other payables	3.5	—	—	(1.2)	(1.2)
Total		—	—	(1.2)	(1.2)

4.8 CAPITAL MANAGEMENT

The Board's objectives and policies for the Company are consistent with those of the Group. Full details are provided in Note 4.13 in the Consolidated financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

continued

SECTION 5 – OTHER NOTES

5.1 SUBSIDIARIES

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

	Principal activity	Proportion of share capital held	Country of incorporation
Ocado Holdings Limited	Holding company	100%	England and Wales
Ocado Retail Limited (formerly Ocado Limited)	Retail	100%	England and Wales
Ocado Information Technology Limited	Intellectual property	100%	Republic of Ireland
Ocado Polska Sp. Z.o.o	Technology	100%	Poland
Ocado Innovation Limited	Technology	100%	England and Wales
Ocado Operating Limited	Logistics and Distribution	100%	England and Wales
Ocado Central Services Limited	Business services	100%	England and Wales
Speciality Stores Limited	Non-trading company	100%	England and Wales
Newco Beauty Limited	Non-trading company	100%	England and Wales
Jalapeno Partners Limited	Non-trading company	100%	England and Wales
Last Mile Technology Limited	Non-trading company	100%	England and Wales
Paws & Purrs Ltd	Retail	100%	England and Wales
Ocado Cell in Atlas Insurance PCC Limited	Insurance company	100%	Malta

In addition to the companies shown above, the Company also holds an investment in one other subsidiary undertaking, which in the Directors' opinion does not significantly affect the figures in the Consolidated financial statements. In accordance with Section 410(2)(a) of the Companies Act, a full list of subsidiaries was annexed to the 2013 annual return and submitted to Companies House. A full list of subsidiaries will be submitted to Companies House in the 2014 annual return.

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

5.2 RELATED PARTY TRANSACTIONS

Key management personnel

Only the Executive and Non-Executive Directors are 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 in the Consolidated financial statements on pages 91 to 129.

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

Subsidiaries

The Company enters into loans with its subsidiaries. Interest income of £6,000 was earned on these loans at market-related interest rates during the period (2013: £6,000).

	52 weeks ended 30 November 2014 £m	52 weeks ended 1 December 2013 £m
Transactions with subsidiaries		
Group share-based payments	6.1	3.3
Increase/(decrease) in loans made to subsidiary undertakings	47.8	(32.5)
Increase in amounts due to subsidiary undertakings	0.8	9.2
Year-end balances arising from transactions with subsidiaries		
Receivables		
Loans and receivables due from subsidiaries	203.2	155.4
Payables		
Loans and payables due to subsidiaries	0.8	—

5.3 POST BALANCE SHEET EVENTS

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



GREATER
FRESHNESS

“Our product life guarantee gives confidence to customers that their groceries have a minimum remaining life when delivered”

A photograph showing a row of delivery vans parked along a street at night. The vans are illuminated by streetlights, casting reflections on the wet asphalt. In the foreground, a silver Mercedes-Benz van is prominent, with its license plate clearly visible. Behind it, other vans in various colors like white, orange, and green are parked in a line.

SHAREHOLDER INFORMATION

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- IBC Financial Calendar
- IBC Company Information



View more information about our financial calendar on the Inside Back Cover



View more information online at
www.ocadogroup.com

GLOSSARY

2012 Code — means the UK Corporate Governance Code published by the FRC in September 2012, as amended from time to time.

2014 Code — means the UK Corporate Governance Code published by the FRC in September 2014, as amended from time to time.

2014 ESOS — means the Ocado 2014 Executive Share Option Scheme.

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

Administrative expenses — means all IT costs, advertising and marketing expenditure, employment costs of all head office functions, which include legal, finance, human resources, marketing and procurement, rent and other property-related costs for the head office, all fees for professional services and the depreciation, amortisation and impairment associated with head office IT equipment, software, fixtures and fittings and expenses relating to the Group's share schemes.

Admission — means the admission of the ordinary shares of the Company to the premium listing segment of the Official List and to trading on the London Stock Exchange's main market for listed securities which occurred on 26 July 2010.

AGM — means the Annual General Meeting of the Company, which will be held on 15 May 2015 at 11 am at Peterborough Court, 133 Fleet Street, London, EC4A 2BB.

Annual Incentive Plan or AIP — means the Executive Director incentive plan for the Group applicable to a particular financial year.

Articles — means the articles of association of the Company.

Board — means the board of directors of the Company or its subsidiaries from time to time as the context may require.

Block Listing Facilities — means the facilities whereby a number of shares have been block listed but will only be allotted when various share scheme options have been exercised.

Chairman's Share Matching Award — means a one-off award of shares to Lord Rose, made in May 2013.

Companies Act — means the Companies Act 2006.

Company — means Ocado Group plc, a company incorporated in England and Wales

with registered number 07098618 whose registered office is at Titan Court, 3 Bishops Square, Hatfield Business Park, Hatfield, Hertfordshire, AL10 9NE.

Corporate website — means www.ocadogroup.com.

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. There are three CFCs: CFC1 in Hatfield, CFC2 in Dordon and CFC3 in Andover. A planned CFC4 will be located in Erith.

Deloitte — means Deloitte LLP.

Directors — means the directors of the Company whose names are set out on pages 62 and 63, or the directors of the Company's subsidiaries from time to time as the context may require.

Directors' remuneration policy — means the remuneration policy which was approved by shareholders at the 2014 annual general meeting and is set out on pages 96 to 110.

Disclosure and transparency rules — means the disclosure rules and transparency rules made under Part VI of the Financial Services and Markets Act 2000 (as amended).

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 — means the non-GAAP measure which Ocado has defined as earnings before net finance costs, taxation, depreciation, amortisation, impairment and exceptional items.

EBT — as relating to the Income statement, means earnings before tax. As relating to share schemes, means employee benefit trust.

EBT Trustee — means the trustee from time to time of the employee benefit trust established for the purposes of the JSOS, currently Appleby Trust (Jersey) Limited.

ESOS — means the HMRC-approved Ocado 2001 Executive Share Option Scheme and the Ocado 2001 Non-HMRC approved Executive Share Option Scheme.

Exceptional items — means items that due to their material and non-recurring nature have been classified separately in order to draw them to the attention of the reader of the financial statements.

Executive Directors — means Tim Steiner, Neill Abrams, Duncan Tatton-Brown and Mark Richardson.

Financial period — means the 52 week period, or 53 week period where relevant, ending the closest Sunday to 30 November.

Financial year or FY — see Financial period.

FRC — means the Financial Reporting Council.

GAAP — means generally accepted accounting principles.

GHG — means greenhouse gas(es).

GIP — means the Growth Incentive Plan.

Gross sales — means sales (net of returns), including charges for delivery, before deducting relevant vouchers, offers and value added tax. Gross sales also includes income received pursuant to the Morrisons agreement. Relevant vouchers and offers include money-off coupons, conditional spend vouchers and multi-buy offers, such as buy three for the price of two.

Gross sales (Retail) — means sales of the Group's retail operation being Ocado.com, fetch.co.uk and sizzle.co.uk

Group — means Ocado Group plc and its subsidiaries.

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 England and Wales 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.

Life guarantee — means the minimum product life guaranteed by Ocado.

Listing Rules — means the Listing Rules made by the UK Listing Authority under Part VI of the Financial Services and Markets Act 2000 (as amended).

LPP — means Low Price Promise, the Ocado vouchering scheme which entitles customers to receive discount vouchers where their shopping basket has cost more than it would have at selected competitors.

LTIP — means the Company's Long Term Incentive Plan for Executive Directors and selected senior managers.

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

MHE — means mechanical handling equipment.

MHE JVCo — means MHE JVCo Limited, a company incorporated in England and Wales with registered number 8576462, whose registered office is at Titan Court, 3 Bishops Square, Hatfield Business Park, Hatfield, Hertfordshire, AL10 9NE. MHE JVCo is jointly owned by the Company and Morrisons.

Morrisons — means Wm Morrison Supermarkets PLC, a company incorporated in England and Wales with registered number 353949, 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

comprised principally of bank interest and other interest. Finance costs are comprised of interest on bank loans and overdrafts, interest on finance leases and interest on other financing arrangements.

NFDC — means the Non-Food Distribution Centre in Welwyn Garden City, a dedicated highly automated warehouse used for the operation of the business.

Non-Executive Directors — means the non-executive Directors of the Company designated as such on pages 62 and 63.

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.

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 statutory auditors.

R&D — means Research and Development.

Regulations — means Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended by the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

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 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.

SaaS — means software as a service.

Sharesave Scheme or SAYE Scheme — means the Ocado employee savings-related share option plan approved by HMRC. SAYE1 means the first invitations made under the scheme in 2010, SAYE2 means the second invitations made under the scheme in 2012 and SAYE3 means the third invitations made under the scheme in 2013.

Shareholder — means a holder for the time being of ordinary shares in the Company.

SIP — means the Share Incentive Plan.

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 England and Wales 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 website www.ocado.com, www.fetch.co.uk and www.sizzle.co.uk.

FIVE YEAR SUMMARY

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

	52 weeks to 30 November 2014 £m	52 weeks to 1 December 2013	53 weeks to 25 November 2012	52 weeks to 27 November 2011	52 weeks to 28 November 2010
Trading weeks	52	52	53	51	52
Gross sales	1,026.5	852.4	731.9	642.8	551.1
Revenue	948.9	792.1	678.6	598.3	515.7
Gross profit	312.9	247.5	207.3	184.7	161.6
EBITDA	71.6	45.8	34.5	27.9	22.0
Adjusted operating profit/(loss) ¹	7.5	1.0	5.4	1.1	(1.8)

1. Adjusted to exclude exceptional items.

The following table sets out a summary of selected unaudited key performance indicators for the business:

	52 weeks to 30 November 2014	52 weeks to 1 December 2013	53 weeks to 25 November 2012	52 weeks to 27 November 2011	52 weeks to 28 November 2010
Average orders per week	167,000	143,000	123,000	110,000	93,000
Average order size (£)	112.25	113.53	112.13	112.15	114.06
CFC efficiency (UPH) ¹	145	135	121	111	121
Average deliveries per van per week (DPV/week)	163	160	152	145	133
Product waste (%)	0.8	1.0	0.7	0.7	0.6
Items delivered exactly as ordered (%)	99.3	99.0	98.0	98.3	99.0
Deliveries on time or early (%)	95.3	95.2	92.7	92.3	94.9

¹ Mature CFC operations (CFC is considered mature if it had been open 12 months by the start of the half year reporting period).

FINANCIAL CALENDAR

Date	Event
10 March 2015	Q1 Trading Statement
15 May 2015	Annual General Meeting
30 June 2015	Half Year Results Announcement
15 September 2015	Q3 Trading Statement
10 December 2015	Q4 Trading Statement
2 February 2016	Final Results Announcement

COMPANY INFORMATION

Registered office:

Titan Court
3 Bishops Square
Hatfield Business Park
Hatfield
Hertfordshire
AL10 9NE

Company number:

07098618

Independent auditors:

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
10 Bricket Road
St Albans
Hertfordshire
AL1 3JX

Registrars:

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU





Ocado Group plc
Titan Court,
3 Bishops Square,
Hatfield Business Park,
Hatfield,
AL10 9NE,
United Kingdom

tel: +44(0) 1707 227800
fax: +44(0) 1707 227999
www.ocadogroup.com