ocado GROUP

Delivering the best platform for online grocery

Ocado Group plc Annual Report and Accounts
for the 52 weeks ended 27 November 2016

www.ocadogroup.com
Stock code: OCDO

Who?

Established in 2000 and listed on the London Stock Exchange in July 2010, Ocado is the world's largest dedicated online grocery retailer with over 580,000 active customers. Our objective is to provide our retail and corporate customers with the best proposition in online shopping at the lowest possible operating cost. This enables us to build a strong, sustainable and growing business designed to deliver long-term value for our shareholders.

How?

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

Why?

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

Why People Invest in Us

1
Largest dedicated online grocery supermarket in the world

More information on page 1

2
Significant market opportunity in grocery, the largest retail segment

More information on pages 6 and 7

3
Ideally positioned to benefit from continuing channel shift to online

More information on pages 6 to 9

4
Proprietary intellectual property creating significant competitive advantages

More information on pages 12 and 13

5
Commercialising intellectual property offering significant value creation from platform business

More information on pages 20 and 21

6
End-to-end operating model gives structural advantages

More information on pages 10 and 11

7
Superior customer offering with leading service, range and price proposition drives growth

More information on pages 16 and 17

8
Operational leverage and virtuous cycle of growth, investment and innovation

More information on pages 8 and 9

9
Proven management team driving strategy and execution

More information on pages 48 and 49

10
Actively promoting responsible business behaviour

More information on pages 38 to 41

Our Vision

Mission Statement

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

Strategic Objectives

To deliver long-term shareholder value by:

- Driving growth
- Maximising efficiency
- Utilising our proprietary knowledge

Our Brands

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

Our end-to-end online grocery platform solution.

Our dedicated pet store.

Our dedicated kitchen and dining store.

Our premium beauty store in partnership with Marie Claire.

Channel Shift

"There's going to be significant growth across all of the top 10 online grocery markets . . . The UK has always been a leader in online grocery, with both retailers and shoppers keen to embrace new technology, and we expect this to continue."

IGD

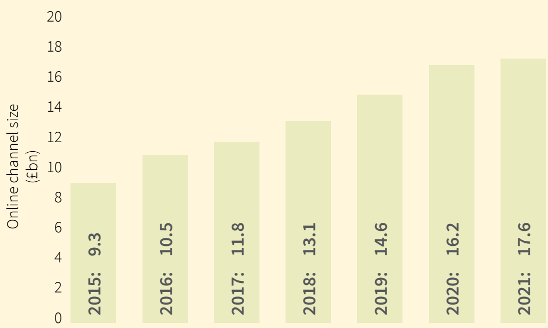
"It is much easier and cheaper to shop online and have it delivered at a time that suits me."

Ocado Customer

Online is forecast to be the fastest growing channel in UK grocery over the next five years with similar trends likely elsewhere (IGD).

Online grocery represents approximately 6% of the UK grocery market, and is predicted to grow to 9% by 2021. The UK grocery market was estimated to be worth £179 billion in 2016 (IGD).

UK Online Grocery Market (2016: £10.5bn)



Source: IGD

Global Retail Opportunities

Estimated to contribute to over 50% of all global retail spend, grocery is the largest retail segment. IGD expects the value of the world's grocery market to increase by a third over the next five years, reaching $11.8 trillion by 2020. Grocery retail internationally has undergone a number of changes, and the adoption of digital technologies, is expected to play an increasingly important role. This offers huge market opportunities on a global scale.

Uniquely Positioned to Take Advantage

We have developed an entire end-to-end solution to operate online in the grocery market, vertically integrated across software and physical equipment solutions. This enables us to offer a compelling proposition to consumers including highly attractive service, wider and fresher ranges and competitive prices, giving us a unique advantage in the UK grocery retail market to grow our customer base and take market share.

Ocado Smart Platform, our managed service offering of proprietary software and equipment solutions, will offer retail partners a faster, flexible and more cost efficient way of operating online. 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.

Our Progress in 2016

Strategic Highlights

- Opened our latest customer fulfilment centre (CFC) in Andover, UK, which utilises the first installation of our proprietary equipment solution
- Extension to our agreement with our first commercial customer, Morrisons, to expand capacity for Morrisons.com
- Developed new IP, with multiple patent applications filed
- Launched our premium beauty brand, Fabled, in partnership with Marie Claire
- Ongoing discussions with international retailers to use Ocado Smart Platform

Operational Highlights

- Believed to be industry leading service levels maintained with 94.9% on time deliveries and 99.0% order accuracy
- Range at Ocado.com broadened to over 50,000 SKUs
- Active customers increased to over 580,000
- Mature CFC efficiency improved by 3.5% to 160 units per hour
- Delivery performance increased by 6.3% to 176 deliveries per van per week
- Average order size on Ocado.com declined by 2.7% to £108.10 reflecting industry deflation
- Low product waste of 0.7%, believed to be most efficient in the food retail sector

Financial Highlights

- Gross sales (Group) up 15.1% to £1,386.7 million Ⓐ
- Gross sales (Retail) up 13.6% to £1,267.4 million Ⓐ
- Revenue up 14.8% to £1,271.0 million
- EBITDA up 3.3% to £84.3 million Ⓐ
- Profit before tax up 1.3% to £12.1 million

A See Alternative Performance Measures on page 194

CEO Q&A

Tim Steiner

Q: 2016 has been characterised by tough competition, deflation and cost increases. To what extent was Ocado affected by industry conditions?

A: Similar to retailers across the sector, Ocado has felt the headwinds from this challenging retail environment. However, during this time we increased sales and grew our share of the grocery market. We did this by focusing on improving our customer proposition to support growth and driving efficiency through scale, technology and operational improvements. Together this has helped to mitigate the impact on our gross margins.

Despite these challenging conditions we have not stopped further developing our market leading technology and IP to ensure that we offer a sustainable solution for ourselves and our platform customers that is resilient in all market conditions.

Q: What is the update regarding your next CFC in Andover?

A: Our third CFC located in Andover, Hampshire, in the south of England, commenced operations in November 2016. This CFC incorporates the first installation of our new proprietary physical fulfilment solution.

We expect that the Andover CFC will add capacity of around 65,000 orders per week or approximately £350 million in annual sales when at full scale, enabling us to continue to grow at pace. This complete "fulfilment in a box" solution is modular and scalable, adding significant flexibility to the capacity planning for our own retail business and that of our existing and future partners. This CFC is expected to be more capital efficient compared to our earlier CFCs and more efficient to operate.

Read about the Andover and New Technologies case study on page 19

Q: Please outline your international aspirations. Should we expect to see deals in 2017?

A: We plan to commercialise our years of learning and innovation through working with international partners using the Ocado Smart Platform. We remain confident in our proposition and continue discussions with multiple retailers across several geographies with the view of signing multiple agreements in the medium term.

Read about Ocado Smart Platform on pages 12 and 13

1. Contents

Strategic Report

Getting Around the Report

View more information within the Annual Report

View more information online at ocadogroup.com

Governance

Directors' Remuneration Report

Our Financials

Additional Information

2. Chairman's Statement

Lord Rose
Chairman

Performance and market

The UK grocery retail sector continued to face significant challenges. Customers look for greater range, convenience and speed, and added to this, the industry has seen continuing ongoing pressures from falling volumes and price competition, as well as the continued growth of the discount retailers, which has resulted in margin pressure in the market. However, the increased trend for consumers to shop online for groceries, and particularly using mobile devices, has remained, with over 55% of Ocado orders now being placed on a mobile device. Our customer base has grown, now with over 580,000 active customers. We remain one of a small group of significant grocery retailers in the UK that has grown, with Gross Sales (Retail)Ⓐ increasing by 13.6% to £1,267.4 million and EBITDAⒶ up by 3.3% to £84.3 million for the period.

The fall in the Pound since the UK referendum to leave the European Union (EU), has led to greater input cost inflation, and most likely to the start of selling price inflation. Other consequences of leaving the EU for the Group are more difficult to determine at this early stage of the exit process, but management and the Board will continue to monitor the position and work collaboratively with trade organisations and the UK government in its stated aim to achieve the best possible business outcome.

Strategy

Overseas expansion has continued to be a focus for the Group and we continue to be in multiple discussions with retailers across several geographies. Although none of these has yet resulted in a signed deal, we remain confident of signing multiple deals in the medium term.

During the year, we concluded new arrangements with Morrisons; building on our existing relationship. As reported, they will benefit from 30% of the capacity of Ocado's customer fulfilment centre currently under construction in Erith, South East London. Additionally, Ocado will licence to Morrisons the store pick module from the Ocado Smart Platform. This module will provide Morrisons with all of the software necessary for it to fulfil online orders from its stores alongside those online orders fulfilled by Ocado for Morrisons from the CFCs.

In August 2016 we launched our premium beauty and wellness site, Fabled.com, in conjunction with Marie Claire. Fabled offers a seamless customer experience, with deliveries in one-hour time slots and the webshop features bespoke editorial content drawing on Marie Claire's expertise. To accompany the online offering, we have opened a flagship store in London's West End.

Customers and Suppliers

We have improved the quality of what we offer our customers in terms of service and ease of use, the range of products we sell, and our commitment to good value pricing. At the same time, we continue to work closely with our suppliers, providing more opportunities for them to drive their sales with Ocado as suppliers increasingly embrace the online channel.

Improving Efficiency and Expanding Capacity

We opened our latest CFC in Andover, Hampshire at the end of the year, which uses our new proprietary fulfilment solution, and which we expect to be more efficient to operate than our older facilities. In developing our capacity further, we expect our fourth CFC in Erith, South East London, to become operational in financial year 2018.

Board Changes

As the business continues to transform, so too has the Board. As part of its succession plans, Emma Lloyd was appointed as a Non-Executive Director with effect from 1 December 2016 and I am pleased to welcome her experience to the Board.

Following the period end, the Company announced that Robert Gorrie will step down from the position of Non-Executive Director with effect from the Annual General Meeting on 3 May 2017. We thank Robert for his immense contribution to Ocado for almost 17 years and wish him well in his retirement.

These changes follow the appointment of Andrew Harrison in early 2016 and resignation of David Grigson at the 2016 annual general meeting. Alex Mahon, who has sat on the Board since 2012, was appointed Senior Independent Director as successor to David Grigson.

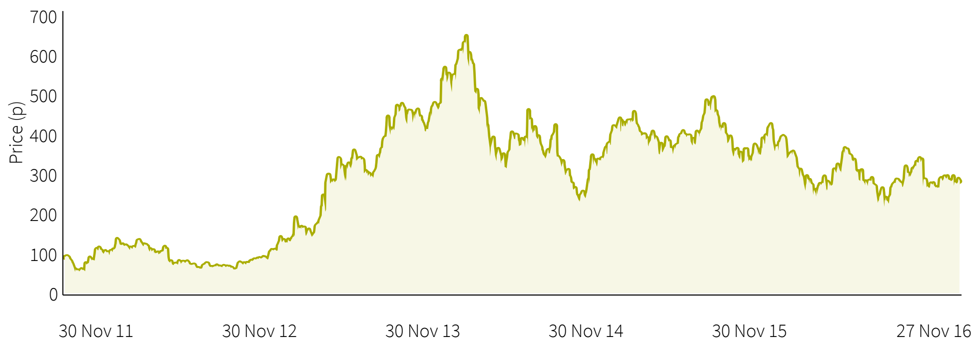
We note the increasing demands placed on our Non-Executive Directors, particularly the growing workloads of those who chair or are members of our Board committees. We need to consider the requirements of these roles, both as we make new appointments and when we review Non-Executive Director remuneration in future years.

Lord Rose
Chairman
31 January 2017

Ⓐ See Alternative Performance Measures on page 194

Share Price Chart

Share price for Ocado on London Stock Exchange: 30 November 2011 to 27 November 2016




ocado
ocado.com

Strategic Report

3. Ocado Within the Marketplace

Market

The UK Grocery Market

- Grocery is the largest of all retail segments, representing over 50% of retail sales globally.
- The size of the UK grocery market is substantial, estimated to be worth £179 billion in 2016 and forecast to increase to £211 billion by 2021 (IGD).
- The grocery industry is characterised by high volumes but low margins.

Price and Cost Dynamics

- The continued growth of hard-discount stores and enhanced competition from new entrants to food distribution has put pressure on supermarkets, stimulating price deflation and competition across the industry, resulting in margin pressure.
- The industry is experiencing input cost inflation driven from both the introduction of the national living wage and the fall in the value of sterling following the EU referendum, making product imports more expensive.
- The combination of price deflation and cost inflation has led to compounded pressure at this time of intense competition.
- Over the year there has also been a dramatic decline and by the end of the period a partial recovery of oil prices, which has impacted the UK economy as a whole.

The Changing Shape of UK Grocery

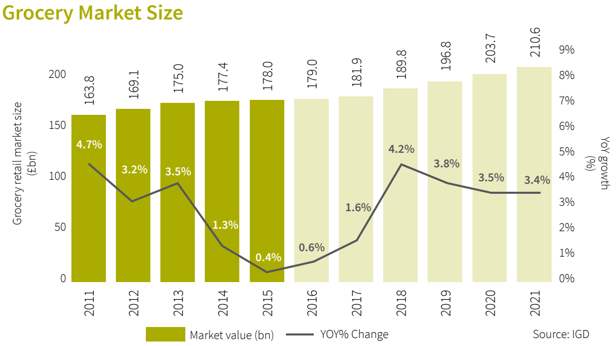
- Recent industry dynamics have seen retail growth shifting away from the "space race" model, whereby market share is captured by opening additional real estate, towards alternative store formats including hard discounters and convenience stores, which differentiate on price and consumer convenience to capture market growth.
- One of the most material structural changes in the UK has been the shift away from physical stores to online, particularly mobile, driven both by shoppers' increasing appetite for convenience and digital connectivity, and service enhancements in online operations.
- It is estimated by IGD that by 2021 this channel will be worth £17.6 billion, a 68% increase from 2016.
- Aside from incumbents' online offerings we are also seeing new entrants in the UK market. This includes the launch of Amazon Fresh, as well as the convenience market being further supplemented by alternative online options, such as meal kit providers and delivery services for prepared food.

The Global Grocery Market

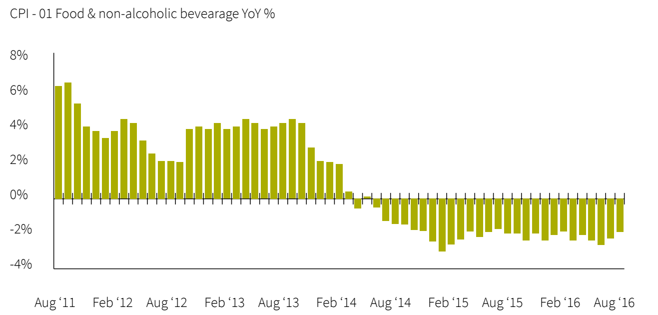
- Global grocery retail has historically been slower to adopt the online channel than in the UK but is building momentum.
- Kantar Worldpanel forecasts that global grocery e-commerce will grow to 9% of the market and be worth $150 billion by 2025.
- As illustrated by the UK market, as competition increases and technology develops to enhance the online experience, global demand for online grocery is expected to accelerate.

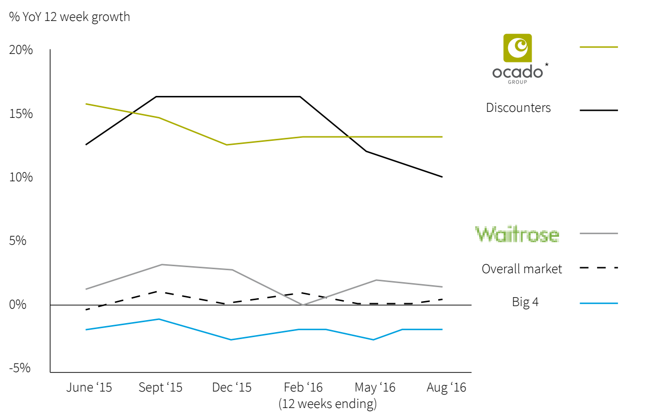
Trends

Grocery Market Size



Price Deflation





Grocery Retail Sales (US$ bn)

Region	2016	2021
Asia	3,011	4,084
Europe	2,178	2,591
Africa and Middle East	902	1,457
North America	1,196	1,424
Latin America	912	1,220
Oceania	110	141

Source: IGD

Impact on Retailers	What This Means for Ocado
• The immense size of the grocery market results in significant opportunities for retailers. • Despite the market size, British supermarkets have faced another tough year, with challenging market conditions. • Given the low margins in the industry, exacerbated by price deflation, it is important for retailers to be cost efficient.	• We seek to gain share in this largest retail segment. • Our core focus is to take actions to drive growth and increase scale, while striving to improve efficiencies to lower operating costs.

• Many retailers, including Ocado, adopt a price matching approach which has the effect of broad industry prices falling in a deflationary environment.
• Traditionally, rising product costs are reflected by higher consumer prices but because of the intense price competition prevalent within the industry, retailers have been more reluctant to respond quickly, exacerbating the price deflation-cost inflation gap.
• While supermarkets have been one of the main beneficiaries of the declining oil price through the reduction of food input prices, transportation and energy costs, this may to some extent reverse in the future.
	• A number of factors have however helped us in navigating these challenging conditions:
	  • We have continued to grow, enabling operating leverage and natural margin expansion with better purchasing power.
	  • The vast majority of our employees were already at or above the new National Living Wage levels when introduced, limiting the short-term impact.
	  • The operational efficiency of our model means energy costs are a comparatively small part of our costs.

• The shift to online creates a challenge to incumbent players in the low margin grocery industry. • Online involves retailers providing more services for customers at greater cost but the same price. • As the online channel expands, driven by more competitive propositions, technology and services, this encourages UK consumers to shift more of their grocery spend online, accelerating the pace of the channel shift further.	• We are well placed to benefit from the fastest growing channel in UK grocery and, unlike traditional bricks and mortar players, we are not restricted by capital intensive stores. • We continue to build momentum in the online grocery market and as the segment expands we have the opportunity to capture market share through our superior customer offering. • The pace of the channel shift and the opportunities to capture this advancing market share are key drivers for our growth. • Our growth enables further investment into improving our proposition through our industry leading technology and software developments.
• The size of the global grocery market presents a huge opportunity, but also a challenge, for retailers globally, as consumers choose to shop more online. • The pace of the channel shift will depend on a retailer's appetite to embrace and invest in online capabilities to gain first mover advantage within their territory. • Today, outside of a few markets, online grocery is still too small a segment to be disruptive. However, as more retailers invest in this space they may act as catalysts, pushing others to seriously consider their online offerings. • Retailers adopt different strategies reflecting either a defensive approach, where they develop in line with the market in order to retain market share, or an offensive strategy, where they proactively seize the opportunity to grow ahead of the market by enhancing their proposition.	• We believe that we will be able to leverage our IP through Ocado Smart Platform which will position us well for this channel shift on a global level. • The enhanced propositions within the online arena increase customer awareness and adoption, which in turn grows the market and accelerates the channel shift – we believe we are well positioned to capitalise on these growing global trends.

4. Our Business Model

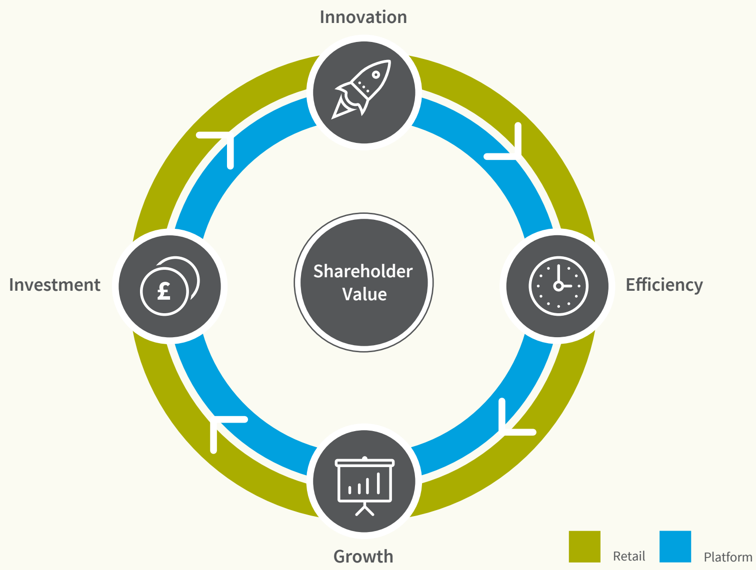
Ocado is Focused Online

From the start we have built our business to take advantage of the ongoing channel shift in grocery retailing and our business model exploits the link between retail and digital technology. We are an entirely online-focused operator and strive for new and improved ways to deliver the world's most advanced end-to-end online shopping and delivery solutions.

We innovate to redefine the ways in which people complete their weekly shop. Our strengths lie within our compelling customer proposition, which harnesses our years of learning in a live retail environment to deliver leading customer service metrics, powered by our proprietary technology.

Our business comprises our retail and platform operations, both fundamentally enabled by our technology solutions and IP. By creating virtuous cycles within and between these interlinked businesses, enhanced by continued technology development, we improve our capabilities with the intention of driving long-term shareholder value. Our intention to commercialise our proprietary technology and platform gives us an opportunity to participate internationally as globally customers increasingly shop online.

Ocado's Virtuous Cycle



Our objective is to create a virtuous cycle between growth, innovation, efficiency and investment. This is enabled by our end-to-end solution, utilising proprietary technology and removing significant costs incurred by store-based retailers. The resultant cost benefits and profits enable us to reinvest into our business and drive growth. The virtuous cycle drives both our retail operating model and platform business.

Any improvements we make to our retail operations naturally translate to the Ocado Smart Platform. The investment we make into innovation improves our proposition, both for retail and corporate customers.

Our Retail Operating Model

Our online retail operating model is designed to deliver a best-in-class service in the most operationally efficient way to drive growth and long-term profitability. We have developed this by applying three core principles – automation, centralisation and the utilisation of our proprietary technology – to our customer focused approach. To achieve this our retail operating model functions via customer fulfilment centres (CFCs) developed with the constraints and attributes of grocery shopping in mind to reduce or eliminate many of the costs commonly incurred by store-based retailers. Our CFC operations encompass everything from the inbound delivery of goods from suppliers to the final placement of picked and packed customer orders onto vehicles for the final mile of delivery.

By developing our centralised approach, it allows us to maximise efficiency and drive down operating costs, enabling further investment in our customer proposition. We pride ourselves with what we believe to be industry leading service metrics on range, punctuality and accuracy and are constantly looking for ways to advance our proposition further, both for our existing and for new customers.

As an online focused retailer we have the flexibility to expand and grow faster in the market than our bricks and mortar peers. As we improve our proposition we attract a larger and more diverse range of customers, and with this increased scale we benefit from improved efficiencies.

To enhance our retail proposition further, we have extended our range into general merchandise categories. This comprises both products that can be purchased through our Ocado.com hypermarket as well as our specialist destination sites – Fetch, Sizzle and Fabled – which focus on sector-specific segments of the retail market.

Our Platform Operating Model

We have developed a complete end-to-end platform solution for online grocery retail. This has been created through years of operating our own online retail model and we have sought to optimise operational efficiency in every aspect of the online grocery cycle.

Read about Morrisons Update case study on page 21

We recognise that success within the grocery market requires an understanding of operating within the local retail environment. This understanding includes aspects such as brand knowledge, consumer intelligence and local merchandising agreements. Ocado Smart Platform has been developed as an enabler for a retailer's online business – platform partners will choose how to run their online operations and the best methods to serve their customers, whilst we will provide the vertically integrated software and physical solutions using our online capabilities and experience.

In January 2014 Morrisons became our first customer to adopt our platform offering with the successful launch of Morrisons.com. Since then, Morrisons has extended its partnership with us to enable further growth of its online operations.

	Retail Operating Model	Platform Operating Model
Innovation	• We have developed a unique end-to-end technology solution which we believe will have market leading functionality for operating online in the grocery market • Our solution is optimised to seek to provide the customer with the best possible retail experience from the user interfaces, the stock and order processing system, through to the final delivery to customers' homes • We protect our innovations through patent activity to safeguard our IP for future success	• We have started to commercialise our capabilities and years of learning derived from our retail experience. The platform we offer comprises an end-to-end software and physical infrastructure solution for corporate customers globally • We have embedded flexibility into our platform by developing a store pick module allowing corporate customers flexibility to choose how they wish to service their customers
Efficiency	• Automation within our infrastructure allows for lower product waste, faster stock turn, fewer human touchpoints and reduced labour requirements • Our centralised CFCs utilise significantly less real estate – we do not require the use of regional distribution centres or physical stores as used in conventional store based models • Our CFCs use dense storage facilities to make best use of the space and reduce unnecessary transportation time around the warehouse	• Ocado Smart Platform provides what we believe will be the fastest, most capital efficient, flexible and sustainable method to operate online for corporate retail partners • The solution is being continually developed in a "live retail" environment, meaning all innovations created and tested in our own retail operations will also be used to drive efficiencies for our platform customers
Growth	• Using cost savings through efficiency gains and underlying profits generated to constantly improve the customer proposition, enhance customer loyalty and deliver continued growth in our UK retail market • We offer a superior shopping experience with high order accuracy, minimal substitutions, fresher products due to shorter supply chains, high levels of on time delivery, higher predictability of stock, an extensive range and competitive prices	• Improvements in our retail proposition will, we hope, drive monetisation opportunities through international platform partnerships • Our Ocado Smart Platform solution will enable us to partner with retailers who have established brands, supplier relationships, existing customers and local market knowledge • Our solution aligns to the needs of the retailer through its modular and scalable design
Investment	• With increasing scale, we benefit from improved efficiencies and expanding margins, which we can use to invest further into our proposition to customers • We use the cash generated from our retail operations to invest in further innovations of our technology to drive further growth faster	• Continued investment in our technology enhances our platform solution, allowing us to provide more efficient and flexible solutions to potential partners • We have significantly enhanced our technology and engineering teams to support our retail and Ocado Smart Platform offerings

The Best Platform

Ocado Smart Platform will provide partners with a complete, flexible and scalable solution to initiate or enhance their online presence, powered by our technology at what we believe will be significantly lower cost and a greater efficiency than alternative options.

We design and build the technology solutions that power our retail and platform businesses. This comprises everything from our award-winning websites and mobile apps to delivery route optimisation software, automation and robotics. By internally developing our software and infrastructure it gives us the ability to optimise and integrate across our end-to-end solution and it enables us to collect and use valuable data, for the benefit of our customers.

Read our Ocado Smart Platform case study on page 12

5. Our Retail Operating Model

	Order Interface	Order Processing	Fulfilment	Last Mile Solution
Overview	Easy to navigate web interfaces and mobile/tablet applications enhance the customer shopping experience	Powered by fresh thinking, we provide simple and convenient order processing to encourage repeat purchases	Our entire fulfilment process is optimised through the use of our proprietary equipment and software solutions and is operated through our large customer fulfilment centres	Our hub and spoke delivery network drives efficiency in our last mile solution and customer choice of delivery slots
KPIs	• Average order size: £108.10 • Active customer base: 580,000	• Average orders per week: 230,000 • Order Accuracy: 99.0% 🏆	• CFC efficiency: 160 UPH 🏆 • Product waste: 0.7% 🏆 • Ocado.com SKU count: >50,000 🏆	• Average deliveries per van per week: 176 🏆 • Delivery Punctuality: 94.9% 🏆
Value Proposition to Customer	• Proprietary algorithms and data analytics personalise the customer experience • Innovative webshop features from our extensive range of shop-in-shops (over 60) to help customers access products from niche suppliers to calorie saver options, which allows customers to switch out orders for healthier options at check out • Our dedicated destination sites (Fetch, Sizzle and Fabled) allow for range extension beyond traditional grocery segments	• Precise one-hour delivery slots for customers to choose from (and now trialling even earlier options from 5:30am) • Customised features such as PayPal logins and favourites imports to speed up order processing	• Automation and software throughout CFCs drives accuracy of pick • Operational efficiency means cost savings can be reinvested in customer proposition • Proprietary communications systems enables very fast automation communications for rapid order fulfilment • Management control systems coordinate supply and inventory ordering systems, minimising waste	• Extensive delivery fleet ensures precise delivery slots can be selected and accommodated • Market leading route optimisation and driver software • Delivery vehicles are optimised to ensure maximum delivery capacity and fuel efficiency • Proprietary software is utilised to ensure coordination of customer orders with contact centres
Growth Drivers	• Constantly improving the customer proposition through technology innovations – utilising big data analysis and AI to personalise the customer experience • Keeping abreast of alternative mediums to complete shop (e.g. Apple watch applications)	• Innovation and technology-led service and usability improvements	• Continuously innovating to drive efficiencies throughout the fulfilment process	• Last mile delivery optimised by expansion of CFC and spoke network • Competitive prices on delivery proposition • Ocado Smart Pass provides a bundled customer benefit membership scheme to encourage frequency of shop

🏆 Ocado believes to be industry leading

Last Mile Solution

Operating Model Delivers Leading Performance

Our focus is placed on offering a compelling proposition to customers while driving the efficiency of our operations. Our model facilitates these two objectives and enables, what we believe to be, industry leading service metrics.

Suppliers and Operational Partners

We take pride in giving customers a huge selection of products from a vast range of brands. We aim to have an increasing number of products in each of our baskets that you cannot buy in any other supermarket. We are able to provide this best in class range because of the strength of our relationships with our suppliers, which vary from large multi-nationals to our private label selections, and smaller niche, international and speciality players. We currently work with around 2,000 different suppliers to service our Ocado, Fetch and Sizzle banners.

In August 2016 we launched our premium beauty site, Fabled, in partnership with Marie Claire. The strength of the Marie Claire brand helps us to work with suppliers spanning the beauty world, covering a large proportion of the luxury names within the premium beauty market.

Read about Our Strategy on pages 14 to 21

We enjoy a long-term sourcing agreement with Waitrose (part of the John Lewis Partnership) that runs to 2020. This combines our respective product volumes to improve supply terms, and enables us to sell Waitrose branded products on Ocado.com. We pay Waitrose a sourcing fee under the agreement and deal directly with suppliers for the majority of the range.

Where We Operate – Our Locations and Coverage

Our current delivery area covers over 70% of UK households. We deliver as far north as York and as far west as Cardiff. We fulfil orders from our three centralised CFCs in Hatfield, Hertfordshire; Dordon, Warwickshire and our newly opened facility in Andover, Hampshire, which commenced operations in November 2016. We plan to open our fourth CFC in Erith, South London in FY2018. From these CFCs we deliver directly around a third of orders to local catchment customers, while the remaining orders are "trunked" to cross dock spoke sites from which local delivery takes place. We have 17 spoke sites; two were opened in FY16 which primarily service existing geographies. Around a third of our geography have same-day delivery slot availability.

CFC Sites
1. CFC 1 – Hatfield
2. CFC 2 – Dordon
3. CFC 3 – Andover
4. CFC 4 – Erith (opening 2018)

General Merchandise Distribution Centres
A. GMDC – Welwyn Garden City

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

Ocado delivery covers over 70% of the UK population

6. Ocado Smart Platform

Ocado Smart Platform is our proprietary solution which will enable the operation of online retail businesses. It fully integrates our end-to-end software and technology systems with our physical fulfilment solution, both of which are developed in-house and tested in our live retail environment of Ocado.com.

We recognise that a retailer's priorities may be different depending on their geography, level of maturity and strategic direction. Ocado Smart Platform is offered as a fully integrated managed service which will provide customisable solutions depending on the retailer's specific requirements and the service they wish to offer their customers. This will allow the retailer the flexibility to choose how to service customers through alternative fulfilment solutions of centralised warehouse or store picking solutions. Equally, Ocado Smart Platform will support alternative last mile operations such as delivery, pick up, locker boxes or courier services. This will allow the best strategic package to be developed for each partner. All solutions will be powered by Ocado Smart Platform's cutting edge technology.

Customers of Ocado Smart Platform will benefit from years of innovation originating from our own retail business that will enable us to replicate our unique capabilities at a significantly lower cost to alternative solutions. In comparison to other third party providers of services and software, we have developed our end-to-end solutions specifically with grocery retail in mind. This means that every part of the solution has been designed and engineered with the qualities and characteristics that grocery shopping requires, which has allowed us to develop what we believe to be a market leading solution for Morrisons.com and our future corporate customers.

Our physical infrastructure solution can be retrofitted into standard warehouse buildings; it is modular in nature (can be built to different sizes), scalable (can be increased in size over time) and will be fast to deploy (short build and commissioning lead times), providing significant benefits in matching capacity requirements to business volume demands. This will provide a sustainable solution that is constantly being enhanced with future developments and that can be extended as a retailer grows its online business.

To enhance the customer proposition, other products, applications or features can be integrated into Ocado Smart Platform such as general merchandise, loyalty schemes or grocery range extensions. We would expect these additional features to help to increase customer retention and drive growth. Commercialisation of our intellectual property via Ocado Smart Platform offers significant value creation opportunities in the UK and abroad. Morrisons is our first platform partner and has seen strong growth in their online business since launching in 2014 (See Morrisons Update case study). We are confident in signing multiple deals utilising our capabilities over the medium-term.

Case Study

Ocado Smart Platform: Providing Flexibility for Corporate Customers

There are two fulfilment systems offered by Ocado Smart Platform which will enable the flexibility for our partners to tailor their solution to their strategic priorities. The CFC centralised pick solution allows for the MHE and software to run centralised picking and fulfilment, where customer orders are picked and packed within a modular grid that can be scaled with growth. This functionality would allow for a compelling customer proposition providing high picking accuracy and a large range for customers.

Alternatively a store pick solution can be adopted, whereby customer orders are picked and packed directly from a partner's existing stores. Despite expected weaker economics at scale, this alternative picking solution would, we believe, enable a quick to market option allowing full geographic coverage to areas where the centralised picking solution does not reach. It is complementary to CFC fulfilment and would enable retailers to utilise their existing store estate to build online sales volume that could later be transferred to more efficient CFCs.

These fulfilment solutions are not mutually exclusive and can be operated in conjunction with each other to enhance the flexibility of our offering for different partners.

Read the Morrisons Update case study on page 21

Our vision for Ocado Smart Platform

Proposition	• A complete modular and scalable e-commerce, fulfilment and last mile solution
Growth Drivers	• Proposition ideally positioned to take advantage of the ongoing channel shift to online grocery shopping globally • Pace of development of the online market drives competition and therefore innovation throughout the industry • Learning in a live retail environment enables us to constantly improve, enhance and innovate Ocado Smart Platform to remain best in class • Service provided stimulates and encourages online growth for partners
Economic Model	• The platform is offered as a managed service solution, with fee structures aligning to sales growth of each partner • Limited upfront costs for retailers and therefore lower risks associated with adopting Ocado Smart Platform • As online retail business grows the platform can be scaled whilst achieving cost efficiencies

How does Ocado Smart Platform work?

Ordering

Ocado Smart Platform will provide the full e-Commerce software solution. This will include what we believe will be a best-in-class grocery webshop, mobile and tablet applications tailored to meet the customer's retail requirements. The platform also includes the back-end systems required to power the site content and the algorithms devised to analyse consumer habits and customer data. This can enable the shopping experience to be personalised via features such as product recommendations and targeted product sampling as available on Ocado.com.

Fulfilment

Ocado Smart Platform provides two different fulfilment systems:

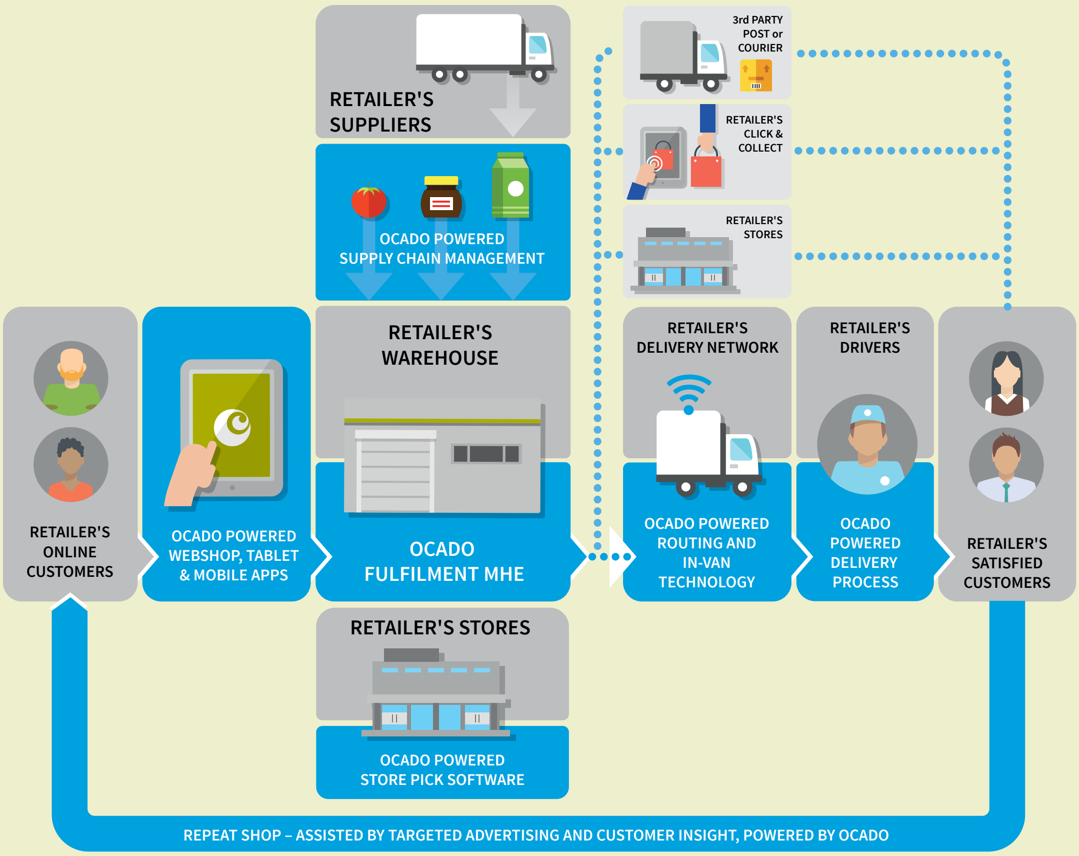
- Customer Fulfilment Centre (CFC) centralised pick
- Store pick

The MHE required for the CFC solution will be installed in the retailer's building, serviced by our engineers who will be onsite 24/7 to maintain it. The dual solution approach of both a centralised CFC picking or store picking option will provide Ocado Smart Platform partners with the flexibility to choose how to operate their business to give the best service, greatest coverage and best economics. All software and systems to operate fulfilment activities will be provided under Ocado Smart Platform.

Last Mile Solution

Ocado Smart Platform will provide the routing and in-van technology to complete the last mile delivery services. This helps track the orders right up to the customer's front door to minimise errors and waste while driving cost efficiencies for the retailer by planning the most effective and economic route to sequence the deliveries.

Alternative last mile services, including pick up or courier services, can be enabled using our technology solutions.



Read the Morrisons Update case study on page 21

7. Our Strategy

Powered by fresh thinking, we strive for new and improved ways to deliver the world's most advanced end-to-end online grocery shopping and delivery solutions. Our strategy is designed to deliver shareholder value through our three strategic objectives of driving growth, maximising efficiency and utilising proprietary knowledge. In order to achieve our strategic objectives we align the business to operate through five strategic actions. Our objectives and actions allow us to provide a market leading proposition to our customers and shape the online grocery market of the future.

Objectives

Driving Growth

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

Read more about Driving Growth on pages 16 and 17

Maximising Efficiency

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

Read more about Maximising Efficiency on pages 18 and 19

Utilising Proprietary Knowledge

Utilising our IP to create competitive advantages in our retail business and to monetise IP through our platform business.

Read more about Utilising Proprietary Knowledge on pages 20 and 21

Actions

Constantly improve proposition to customers

- For our retail customers, this is centred on the three core pillars of the proposition to customers — service, range and price
- For our corporate customers, it is embedding the improvements to our retail proposition into Ocado Smart Platform and extending our offering with new capabilities including store fulfilment and pick up

Strengthen our brands

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

Continuously develop more capital and operationally efficient infrastructure solutions

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

Constantly enhance end-to-end technology solutions

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

Enable Morrisons and future partners' online business

- Continuously develop and enhance Ocado Smart Platform to enable a compelling customer proposition and competitive economics to add significant value for partners

Read more about Strategic Actions in the CEO's Review on pages 22 to 25

8. Our Strategic Objectives:
Driving Growth

Grocery

In the online arena it is critical to ensure a positive customer experience as the cost and ease of switching between retailers is low. At Ocado, we have focused on improving every element of the consumer shop through the quality of our service and our user interfaces, the freshness of our products, the breadth and availability of range, and the competitiveness of our prices. This drives customer retention and helps us capture market share with the intention of providing long-term value for our shareholders. Ocado Smart Pass, a bundled benefits scheme, further drives customer loyalty and frequency of shop – it offers holders unlimited free deliveries for a fixed price, enhancing the benefits of the proposition. Over half of all sales is conducted with our Smart Pass customers.

Through our technological innovations we continuously improve our user interfaces to ensure an increasingly personalised and easy to use shopping experience. This includes the development of our mobile and tablet applications, which are increasingly significant, with over 55% of our orders being checked out via these channels.

Online grocery shopping has unique challenges not found in other online retail segments. This includes significant basket volumes, refined delivery slots and efficient order turnaround. We offer our customers full flexibility by offering one-hour delivery time slots seven days a week, with a wide availability of slots ranging from 5.30am – 11.30pm, and same day delivery service within certain catchment areas. We enable this service by operating our centralised model where we are able to drive efficiency and accuracy in our fulfilment process. This ensures high stock availability with minimal substitutions for our customers. Our operating model, combined with our market leading technology and software, underpins our strong customer service metrics, with 94.9% on time deliveries and 99.0% order accuracy.

Efficiency gains enabled by our proprietary solutions can be reinvested into our competitive pricing policy; we operate a price matching initiative whereby each customer's shop is evaluated against an equivalent order with Tesco.com. We ensure this scheme is fully transparent by communicating directly with the customer any variances between our benchmarked shop, with any additional expense refunded to our customers in the form of vouchers.

Progress

In a tough grocery market we have demonstrated strong growth in our retail business of 13.6%, impacted by deflation on item prices and constrained by capacity utilisation in our mature CFCs. The value of our proposition to our customers is evidenced by the growth in our active customers over the year (13.9%) as well as our progress in sales of our Ocado own label products (10.9%). Growth in Ocado own label products has been constrained by contractual obligations under our agreement with Waitrose.

To attract and retain customers and encourage spend from our customer base we have continued to invest in our range, which is enabled by our centralised operating model. We now offer over 50,000 SKUs on our Ocado.com webshop – we believe the most extensive offering from a UK supermarket. We advertise and showcase our range through our dedicated 'shop-in-shop' facilities – we now have over 60 different "shop-in-shops", which allow customers to quickly search through themed product offerings and select niche items from a variety of regions or suppliers, which wouldn't typically be found in traditional supermarkets. By categorising our interfaces in this way we provide niche suppliers – who may struggle for premium shelf space in conventional store formats – exposure and the ability to drive sales, which enhances our relationships and attracts suppliers to work with us.

Kantar Worldpanel data shows that 55% of online shoppers use the same shopping list from one purchase to the next; we understand these consumer habits and continuously update our interfaces with features such as favourites imports and tailored shopping promotions to facilitate and enhance the customer shopping experience and further accelerate growth.

Future Focus

In order to retain our loyal customers and capture market share we must not get complacent. While taking inspiration from technology and other industries we are committed to innovating and pushing the boundaries in online shopping and fulfilment and have invested in our dedicated technology and engineering teams to ensure this remains core to our offering (See Fabled case study).

General Merchandise

Our centralised operating model has enabled us to expand our offering into general merchandise categories. As well as general merchandise products sold on Ocado.com, we have dedicated destination sites which focus on specialist product ranges, such as our pet store, Fetch, our kitchen and dining store, Sizzle and our new premium beauty offering, Fabled. Hosting these dedicated destination sites drives the range of products made available to us by niche suppliers and brands, allowing us to vastly extend our range beyond conventional supermarkets.

KPIs

230,000
Average orders per week

£108.10
Average order size

580,000
Active customer base

50,000
SKU count

Risks

- Failure to maintain a competitive pricing position
- Decline in high service levels
- Failure to develop a retail proposition to appeal to broader customer base and sustain growth rates
- Failure to develop sufficient management and technology capability or bandwidth to deliver on all our strategic priorities
- Risk of negative implications caused by final Brexit terms such as increase in impact costs or difficulty in hiring employees

Customer orders from general merchandise categories can be collated with customer grocery orders so that all products are received at the same time, driving operational efficiency and minimising waste created by separate home deliveries. Deliveries can also be made standalone from a grocery order, but using the same routing software, or by courier enabling us to service areas outside our CFC reach.

Progress

We have seen strong growth in our general merchandise categories, up to over 40% year-on-year, and which now account for almost 7% of our Gross Sales (Retail)Ⓐ. This has been driven by continued extension of the range of products offered. For example in October 2016 we introduced our new "Smart Home" section, where products such as smart home lighting, heating and security were incorporated into the Ocado.com hypermarket, allowing customers to extend their basket even further in a single shop.

Read about Ocado Smart Platform on pages 12 and 13

In August 2016, we launched our dedicated premium beauty shop, Fabled, in partnership with Marie Claire. Fabled has access to an extensive range of beauty products, from well-known names to new and niche branding, allowing customers to stock up on their beauty essentials overnight.

Future Focus

We plan to launch additional destination sites to offer our customers even more variety and convenience of shopping. Our proprietary technology is built for range expansion, making the extension of assortment and product segments a natural pathway and a good driver of growth.

Platform Business

Continuous innovation and investment in our integrated software and physical infrastructure solutions drives a virtuous cycle of growth in both our retail and platform businesses. Our future platform customers will benefit from years of learning and development in a live retail environment to enable a sustainable launch or improvement in their online operations – with minimal capital investment and associated risk.

Progress

In August 2016, we announced an extension to our agreement with Morrisons, to host and deliver their online operations. The extension underlined the quality of our proposition and our strong relationship with Morrisons as a platform provider. The renewed contract operates in a format aligned to our Ocado Smart Platform structure and principles.

Read more in the Morrisons Update case study on page 21

We have added additional capabilities to our Ocado Smart Platform offering, namely the inclusion of a store pick module, which will allow corporate customers the flexibility to choose how to service their customers and provides an alternative method for delivery in more remote catchment areas. Morrisons will be our first platform partner to utilise this technology.

In November 2016, we commenced operations at our latest fulfilment centre in Andover, Hampshire (see case study). This is the first instance where our proprietary physical infrastructure solution is in use, and provides a live example of the physical equipment solution our platform customers would enjoy.

Read more in the Andover CFC and New Technologies case study on page 19

Future Focus

Our approach of continuously embedding our market leading capabilities (which we believe are market leading) into the Ocado Smart Platform is designed to drive long-term shareholder value and makes it an increasingly attractive proposition to current and future partners. We continue to be in discussions with multiple potential partners, and expect to sign multiple deals in the medium term.

Risks

- Risk of not signing multiple OSP deals in the medium term

See Alternative Performance Measures on page 194

Case Study

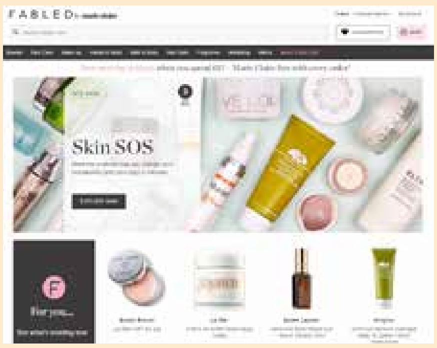
FABLED by marie claire

In August 2016, we announced the launch of our premium beauty shop, Fabled, in partnership with Marie Claire. Marie Claire's brand authority combined with Ocado's e-commerce expertise aims to bridge the gap between content and commerce. Fabled utilises Marie Claire's editorial expertise to provide an enhanced user experience when shopping. This is evident in both our webshop interface as well as our flagship store, which is designed and set out in brand clusters to provide an interactive shopping experience with high quality advice across the beauty spectrum.

Fabled targets a more premium beauty focus than other online retailer offers and provides an authoritative niche range which sets us apart from pure bricks and mortar competitors. The focus of Fabled is on the key beauty categories of make-up, skincare, fragrance and haircare, supported by a wellbeing offer to capitalise on this growing trend.

Fabled utilises our superior fulfilment proposition allowing the site to offer an extensive range to customers, as well as industry leading delivery and customer service metrics, all supported by the Ocado customer service centre and by dedicated beauty specialists for independent product advice and aftersales support. There are clear synergies between the Marie Claire and Ocado customer profiles, which will help it drive the success of the partnership.

Expanding our extensive range into the premium beauty segment accelerates growth in our business as it allows us to utilise our best-in-class fulfilment solution to enter an attractive, higher margin segment of retail.



8. Our Strategic Objectives:
Maximising Efficiency

Operational Efficiency

Our proprietary technology and infrastructure have been developed in-house over many years for the sole purpose of running and optimising the efficiency of our online businesses. This spans the entire shopping and delivery life cycle from customer facing interfaces which power our webshop, mobile and tablet applications to our optimised delivery routing for the final mile service.

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

We face the unique challenge that around half of our sales lie within fresh and chilled categories and as a delivery operation we have to ensure this freshness is preserved right up to our customer's front doors. To enable this we operate a shelf life promise whereby a minimum of approximately two thirds of the total life of the product is guaranteed by the time it reaches the customer. In traditional store-based competitors this is difficult for a number of reasons including additional human touchpoints and disrupted stock rotation due to manual customer intervention as they personally handle the products. Our model enables us to carry lower inventory levels and to operate a perfect "first in first out" stock rotation dependent on shelf life. This allows us to operate with what we believe to be the lowest product waste in the industry at 0.7% of sales across our CFCs and underlines the sustainability benefits of our operating model.

All of our delivery routes are optimised in real time using our proprietary software; this enables operationally efficient delivery routes to be calculated taking into account our customer one-hour delivery slots, house locations and order volumes. By carefully modelling these attributes it increases the likelihood our drivers can successfully deliver orders on time, maintaining our high customer service metrics.

Progress

As we continue to expand existing and open new CFC sites we expect to harness our experience and learning to improve our operational efficiency – quantified by units processed end-to-end per labour hour – even further. Ocado Smart Platform will provide a service offering for our operational capabilities to be packaged and replicated to provide these high service metrics to other retail partners.

Alongside our proprietary software and algorithms we have continued to develop our best in class physical infrastructure solution. The first utilisation of this has been in our Andover CFC and we expect it to demonstrate the power of utilising and integrating our proprietary software and algorithms with our physical solutions to provide the end-to-end solution for our customers.

Read more in the Andover and New Technologies case study on page 19

We complete the final mile of our grocery deliveries through our CFC and spoke network. All stock is currently stored and picked in our three operational CFCs in Hatfield, Dordon and Andover or in our General Merchandise warehouse in Welwyn Garden City. Around one third of orders are then delivered directly from these CFCs to customer homes in the CFC catchment areas and the remainder are "trunked" in larger vehicles to one of our 17 spoke sites, from where local delivery in one of our delivery vans takes place. The opening of CFCs enables a rebalancing of spoke facilities to lower trunking costs, for example upon opening Andover we were able to transfer capacity from the Southampton spoke to Andover and improve operational costs.

Due to increased demand from existing catchments, we opened two additional spokes during 2016 in Peterborough and Crawley. This will enable us to further develop and optimise our delivery network to drive efficiency in the long-term.

Future Focus

We built our latest solutions with the future in mind, and have developed our physical infrastructure solution in such a way that any manual touchpoints within the densely packed fulfilment infrastructure are located on the periphery of the structure so that they can be retrofitted with robotics and automated technology as and when these are appropriately developed. This ensures that we are able to improve our economics as we can efficiently adapt to the technology of the future using existing core infrastructure.

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

Capital Efficiency

We currently operate three CFCs in Hatfield, Dordon and Andover, which opened in 2002, 2013 and 2016 respectively. Our CFCs constitute what we believe to be the world's largest, most sophisticated and most efficient single pick grocery warehouses. Combined with our extensive spoke network, they form a critical part of our unique online grocery operating model.

Progress

During the period, we made several changes to Hatfield CFC and Dordon CFC with limited capital expenditure, to enable additional capacity from these sites - now totalling over 20,000 OPW additional order capacity for Ocado. We commenced operations in our Andover CFC in November 2016. This houses our new MHE solution. Our solution is modular (can be built to different sizes), scalable (can be increased in size) and we expect future iterations to be faster to deploy (shorter build and commissioning lead times) allowing for reduced up front capital commitment.

Despite the additional fixed costs associated with opening a new CFC, the new solution together with its innovative design means that the "economic drag" of opening is minimised. As a new CFC increases its operational throughput, the improved efficiency benefits increase.

KPIs

94.9% Delivery punctuality

99.0% Order accuracy

160 CFC efficiency

176 Average deliveries per van per week

0.7% Product waste

Risks

- Delays in the implementation of new capacity for both Ocado and Morrisons

Future Focus

We have been developing our largest and, we expect, most capital efficient warehouse in Erith, South London since 2015. We expect first orders from this CFC to initiate in financial year 2018. Like Andover, this CFC will utilise both our proprietary software and physical solutions and we expect it will be capable of handling over 200,000 orders per week, equivalent to around £1.2 billion of sales when operating at full capacity. This is larger than our existing CFCs, and will demonstrate the scalability of our end-to-end solution. As we develop and learn through our CFC roll-out plan we expect to be able to continuously advance our CFC capital efficiency increasing the benefits of operating our centralised model in comparison to alternative ways. Through our model we can deliver attractive economics in a difficult retail environment where we see enhanced competition and continued margin pressure.

New equipment solution

Online grocery shopping faces pressures not seen in other online retail segments – such as different temperature regimes, volume of items, multiple product lines and irregular demand patterns for different users. Our new proprietary solution is specifically designed to tackle this as its framework offers very dense and efficient storage through the use of a three dimensional grid, or "hive", to stack and store products and transport them within the facility.

Automated inbound and outbound processes are utilised to move products and completed orders into and out of the hive. This flow is enabled by our proprietary communications system which controls and coordinates thousands of fast, space efficient, densely located robotic devices that each roam and occupy a single location on the surface of the hive. A proprietary system allows communication between the robotic devices which enables efficient and flexible item retrieval of any product, in any order, stored in the hive. The flow of information is constantly being updated and refined based on real time information of incoming customer orders and product locations.

The challenge surrounding the vast variety of product characteristics associated with grocery shopping such as size, density, crushability and shape means that the final pick from our solution is conducted by hand – this ensures wastage is kept to a minimum and products remain undamaged. To ensure this operates in the most operationally efficient way this ultimate part of the pick-process into customer baskets follows a one-to-one goods-to-man approach where relevant stock items are presented to the picker at the same time as the order tote. This enhances the quality of the picking and packing of customer orders as whole totes can be picked and packed by the same person. This mechanism also makes the entire process extremely efficient and accurate and would allow the picking of an entire customer order to be completed in under five minutes, significantly shortening lead times for ordering and delivery.

Resilience and reliability

Our proprietary solution operates in a centralised manner, with all processes being fed into our densely packed hive. This allows parallel processing to operate within the grid, limiting upstream/downstream dependencies and therefore minimising bottlenecks and disruptions in the end-to-end process.

Flexibility

The three dimensional hive can be constructed to varying scales; for example our next CFC which is due to open in 2018 in Erith, South London will have capacity to hold over three times the tote holding locations we have in our Andover CFC, across chilled and ambient temperature zones ready for single item picking. The design allows this flexibility due to its modular nature, which means the solution can be built to accommodate the size and shape of the designated warehouse. This demonstrates the power of the Ocado Smart Platform, which packages our solution and illustrates the value it can have to a wide array of retail partners.

IP Protection

To safeguard our competitive advantage our MHE solution is now the subject of filed and planned patent applications and other intellectual property rights.

Read about Ocado Smart Platform on pages 12 and 13

Case Study

Andover CFC and New Technologies

In November 2016, we commenced operations at our latest CFC in Andover, Hampshire. This site houses the first implementation of our new, internally developed, integrated MHE and associated software. Due to the scalable nature of the solution, the MHE and other automation such as picking stations can be continually added in line with sales growth of our business. At maturity, the solution will, we believe, be capable of driving significant productivity and fulfilment benefits in a highly modular and flexible fashion, and we expect it will increase our fulfilment capacity by around 65,000 orders per week, or approximately £350 million in sales value. We expect Andover and future CFCs using our new solutions to provide efficiencies both in capital costs and operating expenses. We will continue the process of value engineering to further improve capital efficiency in our CFCs, reflected by the capital ratio expected in our Erith CFC. Below we indicate the anticipated improvements in our mature CFCs.

CFC	Commenced operations in	Capital efficiency[1]	Operational efficiency (UPH)[2]
Hatfield	2002	NA	-150
Dordon	2013	16%	175+
Andover	2016	13%	180+
Erith	2018	11%	200+

1. Ratio of MHE infrastructure cost to sales capacity
2. Target UPH figures expected 3–4 years after CFC opening

CFC Sites

1. CFC 1 – Hatfield
2. CFC 2 – Dordon
3. CFC 3 – Andover
4. CFC 4 – Erith (planned to open 2018)

8. Our Strategic Objectives:
Utilising Proprietary Knowledge

Our Intellectual Property

Our proprietary IP, knowledge and technology is at the core of our business. It supports our market leading proposition to customers and drives our operating efficiencies. We seek to continually improve the technology we use and believe that innovation creates competitive advantages across our business.

The key to success of our IP is that we have focused on developing optimal solutions solely for online grocery retail – and have been able to refine and test our solutions in a live retail environment. Practically, this means we have tackled traditional challenges associated with grocery baskets such as large order volumes, goods spanning three different temperature zones and narrow one-hour delivery slots. Our capabilities span our proprietary processes, physical infrastructure solutions, systems and software to provide a complete end-to-end solution.

Progress

To ensure rapid innovation and advancement of our intellectual property and to maintain technological leadership we continue to invest in both our Ocado Technology (currently over 950 people) and engineering development teams (over 200 qualified engineers). Our largest technology development centre is in the UK, but we also have two in Poland and one in each of Bulgaria and Spain helping to build our reputation as a global technology leader, attracting quality talent to underpin our technology expertise.

By creating these capabilities internally we can ensure that our solutions are continually updated and integrated without having to liaise and co-ordinate lengthly change processes with multiple third party providers. This allows us both the flexibility to innovate at a rapid pace and also the continual evolution of our solutions with the intention of creating long-term shareholder value.

Throughout the year we have focused on development and deployment of our physical infrastructure solution and associated software platform. The first live instance of this infrastructure is in our Andover CFC and we expect it to highlight significant capital and operational efficiency advantages, demonstrating the power of our capabilities to our future platform partners.

Read about Andover and New Technologies case study on page 19

In August 2016, we announced the extension of our agreement with Morrisons to provide the infrastructure, host and support for their online operations (see Morrisons case study on page 21). The growth of Morrisons.com, which has driven the contract extension, highlights the advantages and competitiveness of our technology solutions. The renewed agreement is now more aligned to how we would structure future Ocado Smart Platform deals and illustrates the flexibility of our offering, allowing future partners much lower entry points for capacity commitments.

Future Focus

We are committed to invest in our solutions to drive growth and innovation in our retail and platform businesses with the intention of creating long-term shareholder value. We continue to advance our conversations with multiple potential platform partners and are confident of signing multiple deals in multiple territories in the medium-term to capitalise on our knowledge.

Patents

In order to retain our competitive advantage from our technology innovations we take careful measures to protect our intellectual property and inventions and file multiple patent applications to safeguard this.

Our patent activities are intended to create a web of protection for our intellectual property.

Progress

As at the end of the period, we had filed patent applications covering over 50 separate innovations. Of the patent applications filed so far the majority relate to our physical infrastructure solution, which is now live in Andover. Our first patents were granted in 2016.

Future Focus

Our focus for the future is to retain our market leading position in our technology solutions for the online grocery market. We will ensure this by continuing to innovate and protect our intellectual property through the patent application process.

Read about the Morrisons Update case study on page 21

Patent applications covering over 50 separate innovations

Technology development centres
1. Hatfield, UK
2. Krakow, Poland
3. Wroclaw, Poland
4. Sofia, Bulgaria
5. Barcelona, Spain

Risks

- Technology innovation supersedes our own and offers improved methods of food distribution to consumers
- Failure to protect our IP
- Failure to ensure that our technology can be freely operated without infringing a third party's IP

Case Study

Morrisons Update

- In 2013 we signed a 25 year agreement to provide technology, infrastructure and operating services to launch and operate Morrisons.com, the online business of Wm Morrison Supermarkets PLC, becoming our first platform partner in the UK.
- Since launch in January 2014, Morrisons.com has grown substantially. The outstanding development of its online business has enabled the retailer to attract new and existing customers with a compelling proposition whilst operating with attractive cost economics.
- Morrisons.com is currently operated from our Dordon CFC and utilises several of our spoke operations. Operations are enabled by our end-to-end fulfilment solution and proprietary software. Morrisons.com acts independently in making all commercial decisions regarding marketing, range, price and promotions.
- In August 2016 we announced an extension of this service contract – a testament to the quality of our end-to-end solution.
- The agreement is structured in a similar way to potential Ocado Smart Platform agreements, and includes the following elements:
- We will operate a proportion of our CFC in Erith for Morrison.com's benefit. The site is due to commence operations in financial year 2018, allowing the Morrisons online business to continue its substantial growth path.
- Morrisons will pay recurring fees for its share of the mechanical handling equipment (MHE) capacity, but will not own any of the MHE. This will allow significantly lower up front capital costs for Morrisons.
- We have committed to providing a store pick solution for Morrisons to allow them to better service the harder to reach geographies.
- The exclusivity restrictions on UK grocery retailers has been renegotiated, allowing the Ocado Smart Platform services to be available to a larger potential pool of UK retailers.

Read about Ocado Smart Platform on pages 12 and 13

9. Chief Executive Officer's Review

Tim Steiner, OBE
Chief Executive Officer

"…we delivered double digit sales growth through the year, consistently ahead of both the UK online grocery market and the grocery market as a whole."

Robust progress in a challenging market

Our 2016 performance highlights the strength of our core retail business model. In a grocery market with limited growth we delivered double digit sales growth through the year, consistently ahead of both the UK online grocery segment and the grocery market as a whole. We commenced operations at our latest CFC in Andover, Hampshire, which has the first installation of our next generation physical infrastructure solution. We progressed with the building of our largest ever CFC in Erith, South East London. We also extended the scope of our agreement of services to Morrisons.com, and advanced discussions with multiple potential international partners to utilise Ocado Smart Platform.

We continued to deliver on our strategic objectives, namely, to drive growth, maximise efficiency and utilise our proprietary knowledge. These objectives are shared among both our retail and platform businesses and enable us to ideally position ourselves for the continuing shift to online that is taking place in the grocery industry, both in the UK and globally.

This progress has been made in a UK grocery market that has faced significant challenges throughout 2016. Intense competition, influenced by continued changing trends in customer behaviour with ongoing shifts to using discount and smaller format stores and online, has driven sustained price deflationary pressures across the grocery industry. Input cost inflation, largely fuelled by labour cost rises, and more latterly the impact of currency devaluation following the EU referendum, has added to the challenging environment and resulted in margin pressure and uncertainty across the industry. Our continued focus on improving our proposition to customers and driving the efficiency of our business through technology helps to protect us in these conditions.

Progress against our strategic objectives

We have a number of core complementary actions, which form a framework to achieve our strategic objectives for our retail and corporate customers, intended to deliver long-term shareholder value. These actions are to:

- Constantly improve the proposition to customers;
- Strengthen our brand;
- Develop more capital and operationally efficient infrastructure solutions;
- Constantly enhance our end-to-end technology systems; and
- Enable Morrisons' and future partners' online businesses.

Constantly improve the proposition to customers

Our core focus remains on offering the best possible proposition to our customers, which we believe is central to driving growth for both our retail and partner businesses.

From a retail perspective, we continued to focus on improving each of the core elements of our customer proposition - providing excellent service and user experience, an extensive range of products, and offering competitive prices. Our efforts in improving the proposition to customers have been evidenced by the award of the Best Online Supermarket for the second consecutive year at The Grocer Gold Awards 2016.

Providing a compelling proposition to consumers is critical to attracting new customers to Ocado, and to encourage loyalty and retention for future shops. We constantly analyse and review our offering against the wider market and focus on innovation in order to seek to stay ahead of our peers. A consistently positive user experience is at the heart of our service and we always strive to improve the customer experience through enhancements to the speed, convenience and ease of using our service. This provides our customers with the freedom and flexibility to navigate easily and complete their weekly shop wherever and whenever they please.

Mobile has continued to grow in significance with over 55% of all orders at Ocado being checked out using our latest apps and browsers on mobile devices. Given the importance of mobile, and the constant development and improvement of underlying mobile device technologies, it is critical we continually improve our capabilities to enable easy to use shopping.

We strive to be at the forefront of innovation and new developments and have continued to focus on improving functionality and personalisation for our customers to enhance their shopping experience, with features such as customised gifts based on prior shopping habits, calorie saver suggestions and personalised online coupons. We have introduced additional 'shop-in-shops' including our Picard shop specialising in high end frozen food and the Discovery Shop in partnership with the Grocery Accelerator to help food and drink start-ups trial concepts and get to market, further assisting customers to find more of their requirements in easily and carefully curated areas of our shop.

In June 2016 we launched a 'Supply Ocado' entrepreneurship portal, which allows potential suppliers from businesses of all sizes, from across the globe, the opportunity to access our buying team and apply to supply Ocado – with feedback provided to all applicants.

We further extended our delivery choices in some catchments with the earliest slot now starting at 5:30am to cater for the very early risers among our customers. Order accuracy was 99.0% (2015: 99.3%), with delivery punctuality (orders delivered on time or early) standing at 94.9% (2015: 95.3%). We believe our order accuracy and delivery punctuality continue to be market leading, both critical elements in providing a high quality, reliable and consistent service for our customers.

With what we believe to be the broadest range of products in the industry, our customers were able to choose from over 50,000 SKUs by the end of 2016 (2015: 47,000 SKUs) when shopping at Ocado.com. Our diverse range includes basic everyday items, own label products from both Ocado and Waitrose, other favourite brands, specialist and international product ranges, as well as general merchandise items ranging from basic clothes to standard electrical appliances.

Our Low Price Promise ("LPP") basket matching scheme ensures that we are price competitive against the market leader. This transparent pricing strategy gives confidence to our customers in the prices they are paying for their shopping. Despite price reductions and broader food price deflation in the market, nearly three quarters of our customers' baskets were already cheaper at Ocado when checking for LPP. The cost of LPP to Ocado in the form of vouchers used during the period slightly increased but remained low, reflecting our competitiveness in prices and sustained promotional activity.

Our bundled customer benefit membership scheme, Ocado Smart Pass, continued to be popular this year, with over half of regular sales conducted with Smart Pass customers. Smart Pass offers customers multiple benefits including free deliveries whilst enabling us to drive customer loyalty, shopping frequency and ultimately increase total spend per customer.

Our general merchandise product sales, including those from our destination sites, notably Fetch.co.uk, our dedicated pet store, have grown at over 40% year-on-year, and now constitute almost 7% of Ocado retail sales. In August 2016, we launched our latest destination site, Fabled, our premium beauty store in partnership with Marie Claire. The online shop is complemented by a flagship store in Tottenham Court Road, London, offering a physical showcase opportunity to the many premium brands we now work with. The early performance of Fabled is encouraging and we look forward to further developing this and our other destination sites. These destination sites are complementary to our Ocado.com offerings giving our customers access to significant additional assortments across everyday general merchandise categories.

Any improvements and innovations added to our retail proposition enhance the key features we can apply to the technology embedded in our platform, allowing our existing and future corporate customers to benefit from our continued development.

Strengthen our brands

We continued to reinforce our retail brand equity and values to our wide range of stakeholders including our existing customers who have recognised the quality of our proposition, evidenced by winning a number of awards including Best Online Retailer at the Best of Organic Market Awards and Best Online Retailer at the Loved By Parents Awards.

Our Ocado own-label continues to grow, further reinforcing our brand recognition. This year we have seen sales up over 10% against the equivalent period last year, with growth constrained by our contractual obligations with Waitrose. The average customer basket now contains over six Ocado own-label products, with over 90% of our customers having bought Ocado own-label products. The value of our brand and strength of these products is evidenced by multiple awards for our Ocado-own label products in 2016. These include the Gold award for the Ocado own-label Veg and Salad Box by Women's Fitness and several awards in organic food and baby product categories at the Loved by Parents Awards.

Our active customer base continued to expand to 580,000 (2015: 509,000), up 13.9% as we continued to grow in all of our existing catchment areas. Similarly our total order volumes have shown robust growth of 17.9% to an average of over 230,000 orders per week ("OPW") (2015: 195,000 OPW), with the highest OPW exceeding 270,000 during the period.

The average basket size at Ocado.com (excluding the impact of smaller standalone orders from our destination sites) declined by 2.7% to £108.10 (2015: £111.15), primarily due to price deflation across the industry. There was also some impact from the continued uptake of our Ocado Smart Pass offering which tends to drive increased customer frequency but with smaller basket sizes.

Our existing destination brands continue to strengthen. We anticipate Fabled, benefiting from the strong brand association of our partner, Marie Claire, will develop into an attractive destination retail brand for premium beauty products.

9. Chief Executive Officer's Review

We continue to work on our Ocado Smart Platform offering, utilising our Ocado Smart Platform branding to strengthen the marketing of the service to international commercial partners.

While not an external brand, we have been active in promoting the strength and values of Ocado Technology. Brand development has been focused on awareness activities largely through editorial and speaking opportunities, including participating in features with titles such as the Harvard Business Review, New Scientist and the technology section of wider publications such as the Wall Street Journal. This focus ensures we are able to recruit the best talent to develop the most innovative technology for use within our business.

Continuously develop more capital and operationally efficient infrastructure solutions

Our two mature Customer Fulfilment Centres in Hatfield and Dordon continued to operate to high levels of accuracy and with improved efficiency (we consider a CFC to be mature if it has been open for 12 months by the start of the half year reporting period). With limited investment we have increased capacity in both facilities to more than their designed maximum limits, and now expect to be able to operate at over 165,000 OPW from Hatfield CFC and at over 190,000 at Dordon CFC. This benefits not just Ocado but also Morrisons.com, as we have now taken the capacity of Dordon CFC above the anticipated capacity level at the time of our 2013 agreement. Using the units per labour hour efficiency measure ("UPH"), the average productivity for the period in these operations was 160 UPH (2015: 155 UPH).

We commenced operations at our new CFC in Andover, Hampshire, in November 2016, which will ramp up in future periods. This is particularly significant as Andover CFC houses the first installation of our new proprietary modular, scalable physical fulfilment solution. This solution will also offer many other benefits, such as the ability to pick an entire order in less than 5 minutes compared with an average of over two hours in our earlier CFCs. This will significantly reduce order processing lead times and give more flexibility to offer improved services for customers. At maturity Andover CFC will add approximately 65,000 OPW of capacity at an estimated capital cost of £45 million for the material handling equipment ("MHE").

We continued to develop our fourth CFC in Erith, South East London. The building is now complete and fit out works started during 2016. We plan to commence operations in FY2018. The MHE solution in this CFC is estimated to cost £135 million and will add over 200,000 OPW of capacity to our operations. Similar to our Andover CFC, this CFC will also use our proprietary modular, scalable fulfilment solution which will enable us to phase the investment over time in line with our capacity requirements. We expect this to be our most capital efficient CFC to date, and we anticipate it will enable us to efficiently expand our UK capacity. Approximately 30% of the Erith CFC capacity will be utilised for Morrisons.com under the extension agreement that was signed during 2016. In addition we plan to open a second general merchandise facility in 2018 to enable our general merchandise sales to continue to grow rapidly.

Enhancements to our routing system, increased availability of Sunday delivery slots and improved customer density led to an improvement in average deliveries achieved on a van route and has helped us increase deliveries per van per week across all shifts ("DPV") to 176 (2015: 166). We increased our delivery capacity within existing catchments by extending and rationalising our hub and spoke network. In 2016 we opened two new spoke sites in Peterborough and Crawley, while relocating operations from, and subsequently closing, our Southampton spoke to our Andover CFC.

Enhance our end-to-end technology systems

Core to our business and competitive advantage is our proprietary IP, knowledge and technology that supports our market leading proposition to customers and drives our operating efficiencies and to enable attractive economics. We continually strive to improve and develop our technology and believe that this innovation continues to create a competitive edge across our business. Our patent activities help to create a web of protection for our IP. As at the end of the period, we had filed patent applications covering over 50 separate innovations and the first few patents were granted during 2016.

Our focus on innovation has allowed us consistently to improve our own skills. Our innovation is enabled by our extensive and growing technology and engineering teams. By the end of the period our technology team comprised over 950 IT and software professionals operating from multiple technology centres in the UK, Poland, Spain and Bulgaria, taking advantage of the significant technological expertise found in these regions.

In addition to our technology team, we have a dedicated engineering team of over 200 qualified engineers deployed in current operations, CFC development and build, and platform business projects. This team, working closely with the technology team, are core to developing, building and commissioning our proprietary infrastructure equipment solution, now deployed in Andover CFC.

Enable Morrisons' and future partners' online businesses

We have built our retail business through developing and utilising proprietary solutions in technology, engineering and operations. As we continue to develop and innovate in our retail business we embed any improvements into our platform for existing and future partners, enhancing the opportunity to commercialise our IP. The commencement of operations at our Andover CFC will, we hope, provide further evidence of the capabilities and showcase to future Ocado Smart Platform customers the attractiveness of our proprietary solutions.

Morrisons.com launched as an online business in January 2014 using our broader platform offering. Our technology and service capabilities have enabled its strong growth, which continued through the 2016 period. To enable its further growth, in August 2016 we announced an extension of this agreement with Morrisons to include our Erith CFC. The renegotiated terms for additional capacity, which will come on stream in 2018, are more in line with the format of how we wish to operate with future platform partners. Among other things the agreement provides Morrisons with a 30% share of the capacity from our Erith CFC as well as the provision of a store pick module, which will allow Morrisons.com to service its customers from their store estate, alongside the CFC fulfilment Ocado provides, and also reach customers not served by our current CFCs.

During the period, we continued to engage and develop discussions with multiple international retailers about how we might assist them in launching or improving online businesses in their own markets using our technology and solutions collectively branded as Ocado Smart Platform. Ocado Smart Platform customers will benefit from our experience and from the latest technology and innovations we apply to our own retail business, offering flexible fulfilment (through CFC or store-based operations) and last mile options (home delivery and pick up services). We have recently appointed Luke Jensen, who has extensive experience in strategy, online and grocery retailing, to a new role as CEO - Ocado Smart Platform, to help accelerate our discussions. He will start in mid-February. We remain confident in the quality of our commercial proposition and expect to sign multiple deals in multiple territories in the medium term.

People, awards and CR initiatives

By the end of the period, we employed almost 12,000 people, a net addition of over 1,700 new employees year-on-year. Our employees support our retail business, our Morrisons.com platform business and the development of Ocado Smart Platform.

We will continue expanding our pool of talented staff in 2017, including plans to add over 100 technology and engineering professionals. The launch of the Andover CFC, and the continued growth in our business will continue to create new opportunities for existing and new employees in various roles throughout 2017.

The commitment and energy of our people is central to our success and I want to once again acknowledge their remarkable contribution throughout this very busy and exciting time. The efforts of our people were recognised during the year with a number of awards and we regularly receive feedback highlighting the outstanding service provided by our Customer Service Team members who make the Ocado.com and Morrisons.com deliveries.

Our Code for Life programme, which teaches children coding skills using a free resource, now has almost 70,000 users, including almost 1,400 schools, in the UK and from another 60 countries. We believe this scheme is vital to help equip the next generation with key skills from which they will benefit; we are proud of its widespread uptake across the globe.

We continuously strive to be the UK's greenest grocery supplier, operating at what we believe are the lowest waste levels in the industry. Working in partnership with Ecometrica we hope to publish centralised waste data during 2017. Throughout 2016 we have also seen the recycling of Ocado uniforms as part of an offenders retraining programme, enabling us to help offenders learn new skills as well as repurpose and sell new garments with all proceeds going to the Ocado Foundation.

Outlook statement

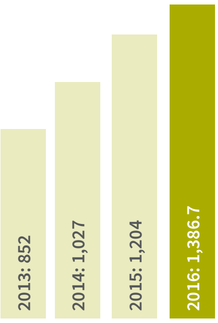
We reported robust gross sales (Retail) growth of 13.6% for the period and we anticipate continuing to grow ahead of the online market in the year ahead.

We anticipate that capital expenditure in 2017 will be approximately £175 million, including the development of further capacity in the Andover and Erith CFCs, and further development to our infrastructure and technology solutions. The capital expenditure requirements for any Ocado Smart Platform deals signed are not expected to be significant in 2017.

> *"We commenced operations at our new CFC in Andover… houses the first installation of our new proprietary modular and scalable physical fulfilment solution."*

10. Key Performance Indicators

Group Sales (£m)



Why we use this measure

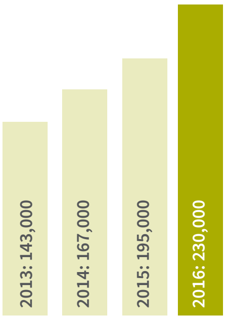
Measures growth at Group level reflecting retail sales and platform business fees

2016 performance

+15.1% v 2015

Strategic link

Average Orders per Week



Why we use this measure

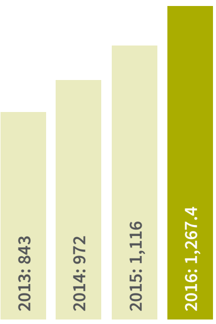
Measures order growth in our retail businesses

2016 performance

+17.9% v 2015

Strategic link

Gross Sales (Retail) (£m) Ⓐ



Why we use this measure

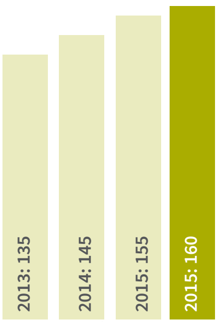
Measures sales growth of our retail business

2016 performance

+13.6% v 2015

Strategic link

CFC Efficiency (UPH)



Why we use this measure

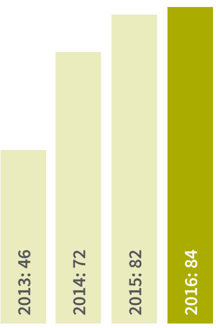
Measures CFC operational efficiency

2016 performance

+3.5% v 2015

Strategic link

EBITDA (£m) Ⓐ



Why we use this measure

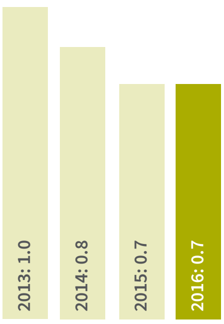
Measures operating profitability

2016 performance

+3.3% v 2015

Strategic link

Product Waste (%)



Why we use this measure

Measures efficiency of our operations in terms of waste minimisation: the lower the better

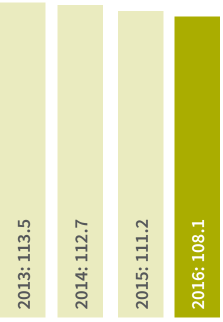
2016 performance

+0ppt v 2015

Strategic link

A See Alternative Performance Measures on page 194

Average Order Size (£)



Why we use this measure

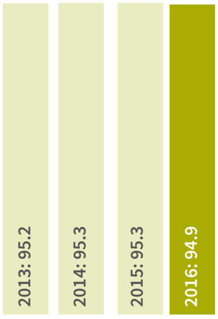
Measures aggregate impact on average shopping basket

2016 performance

-2.7% v 2015

Strategic link

Delivery Punctuality (%)



Why we use this measure

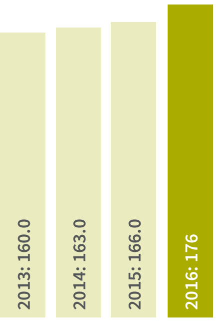
Measures punctuality of our delivery operations

2016 performance

-0.4ppt v 2015

Strategic link

Average Deliveries per Van per Week



Why we use this measure

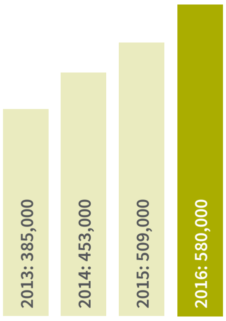
Measures efficiency of our service delivery operation

2016 performance

+6.3% v 2015

Strategic link

Active Customer Base



Why we use this measure

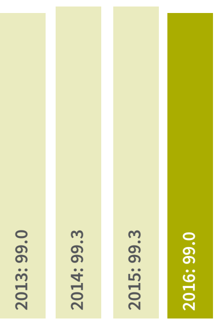
Measures growth in our core customers who shopped in the last 12 week

2016 performance

+13.9% v 2015

Strategic link

Order Accuracy (%)



Why we use this measure

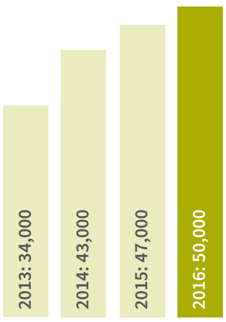
Measures order accuracy (pre substitution)

2016 performance

-0.3ppt v 2015

Strategic link

SKU Count (Hypermarket)



Why we use this measure

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

2016 performance

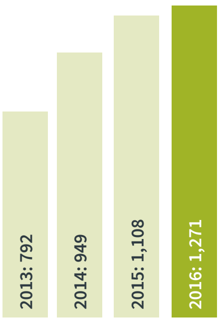
+6.4% v 2015

Strategic link

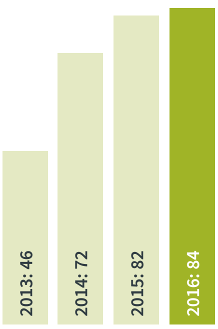
11. Chief Financial Officer's Review

Duncan Tatton-Brown
Chief Financial Officer

Revenue (£m)



EBITDA (£m)Ⓐ



For the period to 27 November 2016, we maintained solid sales growth in what has remained a challenging competitive environment. At Group level, sales increased driven principally by growth in our retail business with the balance coming from our agreement with Morrisons.

Solid growth in Retail sales, order volumes and the number of active customers in the period demonstrated the appeal of our retail proposition. Every year since we launched, we have seen over 10% growth in orders and in the period we grew total orders 17.9% year-on-year. Operating profitability in the period was adversely impacted by the continuing pressure on margins reflecting the competitiveness and deflationary pressures in the market, the impacts of the national living wage and our continued investment in a number of strategic initiatives to aid the future growth of the business. This was offset in part by more efficient operational fulfilment mainly at Dordon CFC and improvements in average deliveries per van per week.

	FY 2016 £m	FY 2015 £m	Variance
Revenue[1]	**1,271.0**	1,107.6	14.8%
Gross profit	**435.3**	375.1	16.0%
EBITDA before exceptional itemsⒶ	**84.3**	81.5	3.3%
Operating profit before share of result from JV and exceptional itemsⒶ	**21.9**	19.1	14.7%
Share of result from joint venture	**2.1**	2.3	(8.7)%
Profit before tax and exceptional items	**14.5**	11.9	21.8%
Exceptional items	**(2.4)**	-	-
Profit before tax	**12.1**	11.9	1.3%

1. Revenue is sales (net of returns) generated at Ocado.com, and the other retail banners - Fetch, Sizzle and Fabled, 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. Morrison MHE JVCo impact includes the income arising from the leasing arrangements with Morrisons for MHE assets and share of results from joint venture

Revenue

	FY 2016 £m	FY 2015 £m	Variance
Retail	**1,171.6**	1,033.7	13.3%
Morrisons recharges	**79.9**	55.1	44.9%
Morrisons fees	**19.5**	18.8	3.7%
Total revenue	**1,271.0**	1,107.6	14.8%

Revenue increased by 14.8% to £1,271.0 million for the period. Revenue from retail activities was £1,171.6 million, an increase of 13.3% which we believe continues to be ahead of the UK online grocery market. Revenue growth was driven by a 17.9% year-on-year increase in the full year average orders per week to 230,000. Product sales from the general merchandise destination sites grew by over 85% year-on-year driven by the increasing popularity of the Fetch pet store and the launch our new beauty destination site, Fabled, during the second half of the period.

The increase in order growth was partially offset by a reduction in average hypermarket order size, down 2.7% from £111.15 in 2015 to £108.10 in 2016, primarily due to deflation in the average item price as experienced across the grocery industry and a small reduction on the number of items partly due to the increased frequency of shop from our customers. Overall average basket size fell by 3.7% due to these effects and also the dilutive effect on the average order size from an increased mix of standalone destination site orders which are typically smaller average size.

The Morrisons arrangement contributed £99.4 million of revenue in 2016 (2015: £73.9 million). The growth was mainly driven by increased revenue from recharges for services provided to support the expansion of the Morrisons.com business. The fee income remained broadly in line with the prior year and comprised of the initial licence fees for the setup of technology services and annual fees relating to technology support, research and development and management services.

Ⓐ See Alternative Performance Measures on page 194

Gross profit

	FY 2016 £m	FY 2015 £m	Variance
Retail	335.9	301.4	11.4%
Morrisons recharges	79.9	54.9	45.4%
Morrisons fees	19.5	18.8	4.1%
Total gross profit	435.3	375.1	16.0%

Gross profit rose by 16.0% year-on-year to £435.3 million (2015: £375.1 million) and was 34.2% of revenue (2015: 33.9%), ahead of 2015 due to additional gross profit attributable to the Morrisons arrangement in the period, reflecting the sustained growth in the Morrisons.com business. Retail gross profit reduced to 28.7% of retail revenue (2015: 29.2%) primarily as a result of selling price deflation.

Other income increased to £52.9 million, up 7.9% year-on-year (2015: £49.0 million). Supplier income was 3.3% of retail revenue (2015: 3.1%). Supplier income grew year-on-year and continues to grow ahead of the rate of increase in revenue as we engage our suppliers in media opportunities on our customer interfaces (including website, mobile apps and mobile websites). Other income also included £2.5 million (2015: £2.5 million) of rental income relating to the lease of Dordon CFC and £11.7 million (2015: £11.2 million) of income arising from the leasing arrangements with Morrisons for MHE assets. 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.

Operating profit

Operating profit before the share of result from the joint venture and exceptional items for the period was £21.9 million (2015: £19.1 million).

Distribution costs and administrative expenses included costs for both the Ocado and Morrisons fulfilment and delivery operations. Total distribution costs and administrative expenses including costs recharged to Morrisons grew by 15.2% year-on-year. Excluding Morrisons, costs grew by 10.4% year-on-year, below the growth in average orders per week of 17.9%. The costs relating to the Morrisons operations are recharged and included in revenue.

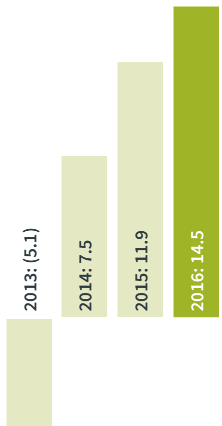
	FY 2016 £m	FY 2015 £m	Variance
Distribution costs[1]	247.5	216.6	14.3%
Administrative expenses[1]	78.8	73.4	7.4%
Costs recharged to Morrisons[2]	79.8	54.9	45.4%
Depreciation and amortisation[3]	60.3	60.1	0.4%
Total distribution costs and administrative expense	466.4	405.0	15.2%

1. Excluding chargeable Morrisons costs, depreciation, amortisation and impairment charges
2. Morrisons costs include both distribution and administrative costs
3. Depreciation and amortisation excludes exceptional items for the period which amounted to £0.7 million impairment charge (2015: £nil)

At £247.5 million, distribution costs increased by 14.3% compared to 2015. Overall mature CFC UPH (for Hatfield CFC and Dordon CFC combined) was 160 in 2016 compared with 155 in 2015. The improvement in mature CFC UPH for the period was driven mainly by the improved productivity at Dordon CFC which had grown by 5.6% year-on-year to 174 UPH in 2016 and had regularly exceeded 180 UPH by the end of the period. Deliveries per van per week have improved by 6.3% year-on-year to 176 (2015: 166) as customer density improved and we increased Sunday delivery slots. During the period we opened two new spokes in Crawley and Peterborough. As a result of these new spoke openings and the annualised impact of three spokes (Dagenham, Milton Keynes and West Drayton), the expansion of the Bristol spoke and additional fixed costs arising from the move of the London spoke at White City to Park Royal in 2015, spoke fixed costs as a percentage of sales increased in the period.

"We've maintained solid sales growth in what has remained a challenging competitive environment."

Profit/(Loss) before Tax and Exceptional Items (£m)



11. Chief Financial Officer's Review

	FY 2016 £m	FY 2015 £m	Variance
Central costs – other [1]	63.0	55.1	14.3%
Central costs – share-based senior management incentive charges[2]	4.1	7.8	(47.3)%
Marketing costs (excluding vouchers)	11.7	10.5	11.6%
Total administrative expenses[1]	**78.8**	73.4	7.4%

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

Total administrative expenses excluding depreciation, amortisation and costs recharged to Morrisons increased to £78.8 million (2015: £73.4 million) and as a percentage of retail revenue this reduced to 6.7% (2015: 7.1%). The year-on-year cost increases were mainly due to additional costs to operate Morrisons.com which are not recharged to Morrisons but for which the Group earns fees, and continued investments in our strategic initiatives to support future growth in both our general merchandise business and for the Ocado Smart Platform. These cost increases were offset by lower share-based management incentive costs driven by the net effect of the maturity of the 2013 LTIP scheme.

Marketing costs excluding voucher spend were higher at £11.7 million (2015: £10.5 million) and in line with the prior year as a percentage of retail revenue at 1.0% (2015: 1.0%).

Total depreciation and amortisation costs excluding exceptional items were £60.3 million (2015: £60.1 million), broadly flat year-on-year and this includes impairment charges of £0.7 million (2015: £1.8 million). Higher depreciation and amortisation arose from increased investment in vehicles and new spokes to support our continued order growth offset by lower depreciation as a result of lower capex spend at our existing CFCs over the last few years. We commenced operations at Andover CFC at the end of the period. As a result the capital work in progress of Andover CFC and its associated software did not have a depreciation impact in the period.

The impairment charges in the period relate to our head office move, write offs related to the exit from the Southampton spoke site and from a detailed review of our legacy systems as we rewrite a number of key systems as part of our software replatforming.

Share of result from joint venture

MHE JVCo Limited ("MHE JVCo") was incorporated in 2013 on the completion of the Morrisons arrangement, with Ocado owning a 50% equity interest in this entity. MHE JVCo holds Dordon CFC assets which are leased to Ocado to service its and Morrisons' businesses. The income generated by MHE JVCo comprises interest income on finance leases granted to Ocado, offset by administrative expenses and depreciation on minor assets not subject to lease and administration charges. The Group share of MHE JVCo profit after tax in the period amounted to £2.1 million (2015: £2.3 million), the year-on-year decrease driven in main by a higher tax provision.

Exceptional items Ⓐ

Exceptional items in the period were £2.4 million (2015: £nil). Of this £1.7 million was recognised in EBITDA and related to our head office move and litigation against payment providers. The balance of £0.7 million is related to the accelerated depreciation charge as a result of our planned head office move.

Net finance costs

Net finance costs of £9.5 million (2015: £9.5 million) were in line with the prior year.

Profit before tax

Profit before tax and exceptional items for the period was £14.5 million (2015: £11.9 million).

Taxation

The Group provided for £0.1 million of corporation tax for one of its legal entities that does not have available prior year losses or capital allowances. Ocado had approximately £268.6 million (2015: £287.8 million) of unutilised carried forward tax losses at the end of the period. During 2016 Ocado incurred £43.4 million (2015: £36.2 million) in a range of taxes including fuel duty, PAYE and Employers' National Insurance and business rates.

Earnings per share

Basic earnings per share was 2.02p (2015: 2.01p) and diluted earnings per share was 1.96p (2015: 1.91p).

A See Alternative Performance Measures on page 194

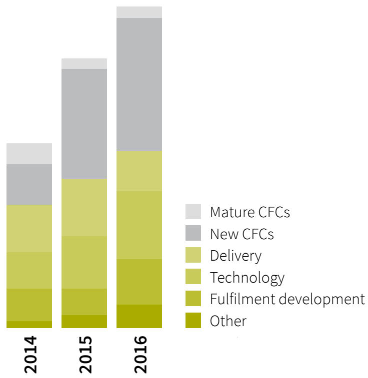
Capital expenditure

Capital expenditure for the period excluding share of MHE JVCo was £153.0 million (2015: £122.1 million) and comprised of the following:

	FY 2016 £m	FY 2015 £m
Mature CFCs	3.4	3.2
New CFCs	64.6	52.9
Delivery	20.6	25.3
Technology	34.3	23.0
Fulfilment Development	19.7	13.3
Other	10.5	4.4
Total capital expenditure[1,2] (excluding share of MHE JVCo)	**153.0**	122.1
Total capital expenditure[3] (including share of MHE JVCo)	**156.9**	126.5

1. Capital expenditure includes tangible and intangible assets
2. Capital expenditure excludes assets leased from MHE JVCo under finance lease arrangements
3. Capital expenditure includes Ocado share of the MHE JVCo of £3.9 million in 2016 and of £4.4 million in 2015

Capital Expenditure



Total investment in Mature CFCs was £3.4 million, which excludes the capital expenditure relating to MHE JVCo of £3.9 million. The investments at Hatfield CFC were primarily resiliency projects, for example installing additional chillers and crane and conveyor improvements. There have also been some capacity and productivity projects at the existing sites such as upgrading pick station scanners.

We incurred £64.6 million of costs in the period for the build and installation of our proprietary infrastructure at our new CFCs. At the end of the period, we commenced operations at our Andover CFC. This is the first of our CFCs to use our new proprietary infrastructure equipment solution and software, which will support the ongoing growth of our business. Andover CFC has an expected capacity of 65,000 OPW. Our fourth CFC located in Erith, South East London, will be larger than any of our existing CFCs with an expected capacity of over 200,000 OPW, and is planned to open in financial year 2018. We incurred £38.6 million of costs on this site in the period.

Delivery capital expenditure was £20.6 million (2015: £25.3 million). This included investment in new vehicles of £13.6 million (2015: £14.0 million) to support our business growth and replace vehicles at the end of their useful lives. These assets are typically on five year financing contracts. There was investment in new spokes of £2.0 million, which included the Crawley spoke which opened in April 2016 and the Peterborough spoke which opened in August 2016.

We continued to develop our own proprietary software and incurred £26.8 million (2015: £18.1 million) of internal development costs which were capitalised as intangible assets in the period, with a further £7.5 million (2015: £4.9 million) spent on computer hardware and software. Our technology headcount grew to over 950 staff at the end of the period (2015: over 700 staff) as increased investments were made to support our strategic initiatives, including major replatforming of Ocado's technology and migration of most of our 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 invested internal technology resources as part of developing capital projects for Dordon CFC and the further development of the Morrisons proposition.

Fulfilment development capital expenditure of £19.7 million (2015: £13.3 million) was incurred to further develop our next generation fulfilment solution which will be used in our new CFCs and for Ocado Smart Platform customers.

Other capital expenditure of £10.5 million, included £5.8 million of capital expenditure related mainly to our head office move. In addition to this we spent £3.5 million in our general merchandise business to support growth in capacity in our existing general merchandise facility and the fit out and costs associated with the development of our new Fabled flagship store and online offering.

At 27 November 2016, capital commitments contracted, but not provided for by the Group, amounted to £34.4 million (29 November 2015: £22.3 million), this increase is mainly driven by commitments in our new CFCs. We expect capital expenditure in 2017 to be approximately £175 million which mainly comprises the continuing investment 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.

11. Chief Financial Officer's Review

"Operating cash flow increased by £14.6 million during the year."

Cash flow

During the year the Group generated improved operating cash flow after finance costs of £96.9 million, up from £82.8 million in 2015, as follows:

	FY 2016 £m	FY 2015 £m
EBITDAⒶ	**84.3**	81.5
Working capital movement	**18.5**	2.3
Exceptional items[3]Ⓐ	**(1.7)**	–
Other non-cash items[1]	**4.9**	8.7
Finance costs paid	**(9.1)**	(9.7)
Operating cash flow	**96.9**	82.8
Capital investment	**(123.9)**	(99.1)
Dividend from joint venture[2]	**8.4**	8.1
Increase/(decrease) in debt/finance obligations	**22.2**	(26.8)
Proceeds from share issues net of transaction costs	**1.1**	4.5
Other investing and financing activities	**0.4**	–
Increase in cash and cash equivalents	**5.1**	(30.5)

1. Other non-cash items include movements in provisions, share of income from MHE JVCo and share-based payment charges
2. Dividend received from MHE JVCo of £8.4 million (2015: £8.1 million)
3. Total exceptional items of £2.4 million (2015: £nil) includes a £0.7 million impairment charge to property, plant and equipment, which is a non-cash item

The operating cash flow increased by £14.1 million during the year as a result of an increase in EBITDA of £2.8 million and a positive working capital movement of £16.2 million. The positive working capital movement includes a £25.2 million increase in trade payables primarily due to increased trade accruals and trade payables attributable to inventory increases prior to year end.

We continue to reinvest our cash for future growth and as a result the cash outflows due to capital investment increased to £123.9 million comprising investments in Andover CFC and Erith CFC, development of our next generation fulfilment solution and expenditure on our delivery assets.

In the period there was a net increase in debt and finance obligations of £22.2 million (2015: net repayments of £26.8 million). This included a £52.5 million drawdown on the Revolving Credit Facility (2015: £nil).

Ⓐ See Alternative Performance Measures on page 194

Balance sheet

The Group had cash and cash equivalents of £50.9 million at the period end (2015: £45.8 million) with the increase mainly owing to a net cash inflow from financing activities in the period.

External gross debt at the period end, which excludes finance leases payable to MHE JVCo, was £107.1 million (2015: £53.3 million). The increase of £53.8 million was mainly driven by a drawdown of £52.5 million on the Revolving Credit Facility (excluding capitalised transaction fees of £1.2 million), currently used for funding capital investment in the new distribution centres. The balance was a result of £16.6 million of additional vehicle and property debt, offset by net repayments of £14.1 million of borrowings.

Gross debt at the period end of £215.8 million (2015: £172.8 million) and includes amounts owing to MHE JVCo of £108.7 million (2015: £119.5 million).

Net external debt at the period end was £56.2 million (2015: £7.5 million).

Bank facility

In the prior year, the 3 year £100 million revolving unsecured facility was extended by a further two years to July 2019 and the amount of the facility was increased to £210 million. At the end of the period we had drawn down £52.5 million of the facility.

Change of external auditors

Following a tender process of the external audit, Deloitte LLP is being recommended at the Annual General Meeting for appointment as the Group's external auditors for the 2017 financial year.

12. How We Manage Our Risks

The Risk Management Framework

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

The Board is responsible for the identification of Ocado's key strategic and emerging risks, and for the review and approval of the risk management framework. The Audit Committee, delegated by the Board, is responsible for the independent review of the effectiveness of risk management, the system of internal control, and the monitoring of the quality of financial statements and consideration of any findings reported by the auditors, 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 the Board;
- a Risk Committee which monitors Ocado's risk control processes;
- an Information Security Committee which monitors Ocado's information security;
- an Internal Audit and Risk function that provides independent assurance on key programmes and controls;
- a treasury policy overseen by a Treasury Committee that manages Ocado's cash and deposits, investments, foreign exchange and interest rates, so as to ensure liquidity and minimise financial risk;
- a food and product technology department, responsible for designing and monitoring compliance with Ocado's processes for the procurement and handling of foods and other goods for resale; and
- other control measures outlined elsewhere in this Annual Report including legal and regulatory compliance and health and safety.

Key Developments in 2016

- The process described on this page 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.
- During 2016, Ocado continued to enhance its approach to risk management. This included the development of a physical security policy, testing of our capabilities for information security and business continuity, and production of a roadmap to enhance our disaster recovery capability.
- The Audit Committee, on behalf of the Board, undertook an annual review of the effectiveness of risk management and the system of internal control, covering all significant controls including financial, operational, compliance controls, and risk management systems.

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

- For further information on the review of financial reporting, refer to page 60 of the Audit Committee report

2017 Plan

Activities to improve our strategic, programme and operational risk management capabilities, including business continuity and information security, will continue in 2017. Our trading strategy is reviewed and amended as necessary to reflect the increasingly competitive grocery trading environment.

The Internal Audit and Risk function will continue to provide independent and objective assurance and advisory services designed to add value and improve the operations of the business. Its scope encompasses the examination and evaluation of the adequacy and effectiveness of Ocado's governance, risk management and internal control processes.

Assessment of the Group's prospects

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

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

Both assessments are closely linked to the Directors' robust assessment of the principal risks facing the Group (including those that would threaten its business model, future performance, solvency or liquidity), which is outlined on pages 36 and 37.

Going concern statement

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

In assessing going concern, the Directors take into account the Group's cash flows, solvency and liquidity positions and borrowing facilities. At period end, the Group had cash and cash equivalents of £50.9 million (2015: £53.3 million), external gross debt(A) (excluding finance leases payable to MHE JVCo of £107.0 million (2015: £45.8 million)) and net current liabilities of £141.2 million (2015: £59.5 million). The Group has a mix of short and medium term finance arrangements and has a £210 million revolving credit facility which contains typical financial covenants and runs until July 2019. The facility has been drawndown by £52.5 million. The Group forecasts its liquidity requirements, working capital position and the maintenance of sufficient headroom against the financial covenants in its borrowing facilities (see below). The forecasts involve the Directors making judgements about future revenue, EBITDA and capital expenditure and the cost of future financing. The financial position of the Group, including information on cash flow, can be found in Our Financials on pages 118 to 189. In determining whether there are material uncertainties, the Directors consider the Group's business activities, together with factors that are likely to affect its future development and position (see pages 36 to 37) and the Group's principal risks and the likely effectiveness of any mitigating actions and controls available to the Directors (see pages 36 and 37).

Viability statement

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

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

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

To assist the Directors' assessment, the financial projections in the longer term business model were subject to severe but plausible stress tests whereby certain key assumptions were adjusted downwards, notably a material decline in the rate of sales growth and lower gross margins or increase in operating costs and a combination thereof. The tests were intended to show various outcomes including the impact on the Group's net debt(A) and cash flow over the three years and an assessment of the impact on the financial covenants in the revolving credit facility, all of which are relevant to assessing the solvency and liquidity of the Group in this context. A decline in sales growth or margins or increase in operating costs can result from a range of principal risks in the retail business including failure by the Group to maintain a competitive pricing position, a decline in customer service levels and a delay in implementing new capacity, including the Andover CFC and the Erith CFC. The Directors consider that it is reasonable to believe that the Group's £210 million revolving credit facility, which runs until July 2019 (falling during the three year assessment), will be refinanced or extended to provide continuing finance to the Group. The Directors' assessment also took into account the other principal risks and mitigating actions.

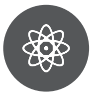
The above considerations form the basis of the Board's reasonable expectations that the Group will be able to continue in operation and meet its liabilities as they fall due over the three year period from approval of this Annual Report.

A See Alternative Performance Measures on page 194

12. How We Manage Our Risks

The Board carried out its assessment of principal risks during the period. Set out below are details of the principal risks and uncertainties for the Group and the key mitigating activities used to address them.

Strategic Objective	Risks	Mitigation Action/Control	Change During the Year
Driving Growth	Failure to maintain competitive pricing position	• 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	
	Risk of decline in high service levels	• Weekly monitoring of the key indicators and the underlying drivers against published targets	Due to operating close to maximum capacity
	Failure to develop retail proposition to appeal to broader customer base and sustain growth rates	• Growth of the Ocado own-label range alongside continued provision of the Waitrose range • Growth of branded ranges and expansion of supplier base • Alternative sourcing scenarios considered in the event that the Waitrose sourcing relationship terminates • Continuation of investment and optimisation of the marketing channels to acquire new customers • Continued improvement of webshop and apps	Due to increased competition in food distribution
	Failure to develop sufficient management and technology capability or bandwidth to deliver on all our strategic priorities	• Second and third overseas technology centres opened • Improved IT prioritisation process	
	Risk of not signing multiple OSP deals in the medium term	• Investment in our platform which enables OSP is also required for Ocado's expanding Retail business. Initial deployment will be in Andover CFC and Erith CFC • Impact of not signing multiple OSP deals in the medium term is restricted to the lost opportunity to increase our earnings from our Platform business • The amount of capital invested in our platform is carefully controlled and we have the ability to reduce costs by scaling back the speed of the development	Andover CFC has gone live. OSP product can be demonstrated.
	Risk of negative implications caused by final Brexit terms such as increase in import costs or difficulty in hiring employees	• Collaborating with trade organisations to follow developments and express our concerns to government • Taking part in BRC analysis to determine impact of WTO tariff rates on imports and exports	New risk
Maximising Efficiency	A risk of delays in the implementation of new capacity for both Ocado and Morrisons	• Dedicating resources to the modularisation of technology and logistics systems to enable faster replication • New capacity in development at Andover CFC and Erith CFC • Regular Executive Board steering and full Board reporting of new technology projects	

Strategic Objective	Risks	Mitigation Action/Control	Change During the Year
 Utilising Proprietary Knowledge	Technological innovation supersedes our own and offers improved methods of food distribution to consumers	• 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	
	Failure to protect our IP	• Processes introduced to identify patentable inventions and to apply for patents • Established Ocado Innovation Committee to review our patent portfolio and discuss other IP issues	 Increased levels of IP protection via patents
	Failure to ensure that our technology can be freely operated without infringing a third party's IP	• Conducting "freedom to operate" searches on selected technologies • Where appropriate, obtaining specialist or legal advice	 Increased scope of Ocado innovations, into increasingly complex areas
 Operational	A risk of a food safety or product safety incident	• Experienced legal, food and product technology professionals monitor compliance against policies and procedures • Supplier approval and certification process • Food and product safety policies and quality management with appropriate operational procedures	
	A risk of changes in regulations impacting our retail business model or the viability of OSP deals	• Regular monitoring of regulatory developments to ensure that changes are identified • Monitoring operational performance to minimise environmental impact • Regulatory due diligence carried out at appropriate stages in the OSP process	
	Risk of major cyber-attack or data loss	• IT systems are structured to operate reliably and securely • Denial of service protection service is in place • The security of our IT systems is regularly tested by third parties • No customer payment card data is held in Ocado's databases • Access to customer personal data is restricted to those who need this information as part of their job	
	Business interruption	• IT systems are structured to operate reliably and securely • Dedicated engineering teams on site with daily maintenance programmes to support the continued operation of equipment • Insurers advise on engineering and risk management in the design and operation of the CFCs • High level of protection for CFCs and equipment	

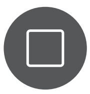
For further information on the financial risks, see pages 158 to 160 of the notes to the financial statements.

Key

 Risk has Increased

 Risk has Decreased

 No Change

 Not Applicable

13. Corporate Responsibility

"The Ocado Way: 2020 Corporate Responsibility Strategy" continued to develop and embed across the business in 2016. Progress was made in each of the four pillars, some of the highlights are set out in this section.

Education

Code for Life

Code for Life, our freely available school resource designed to teach children to code, continues to be well received both globally and here in the UK. As of the end of November 2016, we had 75,000 users and interest from over 59 countries at over 1,300 schools.

Road Safety

We have started an innovative road safety education programme to provide pedestrian safety training to school children.

Over the coming year, we will continue to work closely with Hertfordshire County Council to roll out "Pedestrian Training Skills" to schools across Hertfordshire, teaching children about the dangers of large vehicles .Our aim is to take this successful model and replicate it across other locations in the UK.

The provision of high-viz tabards has enabled more children to be offered Pedestrian Skills training in Key Stage 2 ready for their transition to secondary school.

"Hertfordshire County Council is delighted to be working with Ocado to support road safety education in schools."

Heather Hill – Team Leader, Hertfordshire CC Road Safety in Schools

Hertfordshire County Council is delighted to be working with Ocado to support road safety education in schools

Entrepreneurship

Supporting small suppliers

We like to make sure our customers are spoilt for choice when it comes to shopping, that's why we're always on the lookout for amazing new products to add to our range. Historically, it can be a struggle for small and artisan suppliers to secure a meeting with a buying manager of a retailer, so we have developed a user friendly site aimed at helping small suppliers complete the necessary paperwork and application to increase their chances of success.

It works by suppliers logging an application on www.supplyocado.com. Here they are asked for all the mandatory criteria necessary to be listed, ensuring that if they are successful, they can be listed quickly. Details of their products are then uploaded and this information is then routed to the relevant Ocado buying manager to review and follow up with. We have had more than 500 small suppliers complete applications in the first few months, and we look forward to reporting on this further next year.

Environment

We continue to make progress with our environmental data management, working closely with our partner Ecometrica to provide a centralised data management system. This tracks carbon emissions from our CFCs, Spokes and vehicles. We are expanding it to track all waste from our operations.

Greenhouse Gas Emissions

During the reporting period, our CO_2 emissions moderately increased as a percentage of sales to the previous year. The business has continued to significantly grow, with a number of newly opened Spokes now fully operational and the Andover CFC also open.

Our vehicle fleet continues to be our largest contributor to carbon emissions (66% of reported emissions), and during the period the fleet grew by a further 27% in response to our continued growth and that of Morrisons.com.

Despite the growth, we have continued to invest in carbon efficiencies. This has included the replacement of lighting with LED at both Hatfield CFC and the General Merchandise Distribution Centre as well as at a number of our Spokes; and installation of airlock doors at a number of Spokes to reduce refrigerant wastage on our "white box" refrigerated storage units.

The quality and integrity of our data is something we have particularly concentrated on during the period, bringing us far greater accuracy of content and significantly fewer estimates. This year, less than 1% of all carbon data is estimated compared to 5% last year.

PwC has carried out a limited assurance engagement on selected GHG emissions data (table below) in accordance with the International Standard on Assurance Engagements 3410 'Assurance engagements on greenhouse gas statements' (ISAE 3410), issued by the International Auditing and Assurance Standards Board and, in respect of the intensity measure, in accordance with the International Standard on Assurance Engagements 3000 (Revised) 'Assurance engagements other than audits or reviews of historical financial information' (ISAE 3000 (Revised)). A copy of the limited assurance report is available in the "Our Responsibilities" section of the Company's corporate website.

Waste

We expect that centralised waste data will be compiled and published during 2017.

Throughout this year we have been closely measuring food waste, particularly that which can be redistributed to those in need. Over the last 12 months, more than 206 tonnes has been donated to food bank partners. This is a combination of hot meals served in shelters and refuges, in cafes such as those of our partner The Real Junk Food Cafe, food parcels and donations.

In the spirit of trying to avoid as much waste to landfill as possible, the last 12 months has also seen the recycling and refashioning of Ocado uniforms. Partnering with HMP Northumberland, Ocado's uniforms are refashioned as part of an offender retraining programme – enabling the upskilling of offenders to learn a trade whilst enabling Ocado's uniforms to be repurposed and ultimately be available for sale, with all proceeds going to the Ocado Foundation, for further charitable donations.

Refashioned Ocado uniform

GHG Emissions (Tonnes CO_2e)

	2015/16	2014/15	2013/14
Scope 1 – Direct	75,891	63,151	50,198
Scope 2 – Indirect	28,675	28,602	26,493
Total Emissions	**104,566**	**91,753**	**76,691**
Intensity measures:			
Tonnes CO_2e / 100,000 orders	762.5	725.4	815.1

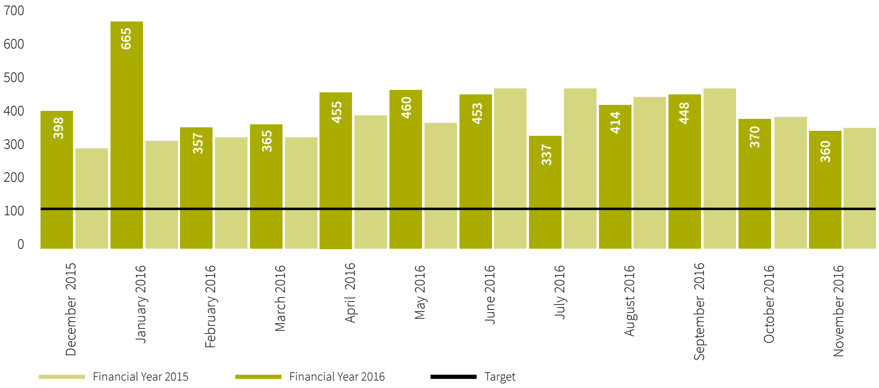
View more information about the basis of preparation of our emissions data online at ocadogroup.com

13. Corporate Responsibility

Eating Well

Enabling customers to make informed choices about food and nutrition is at the heart of this pillar. Recognising that we are a very different business to many others in the industry is also a key aspect, and presents a number of opportunities. Last year we committed to always having at least 100 different fruit and vegetables on promotion at any one time, which we have continued to monitor throughout this financial year.

Fresh Fruit/Vegetables on Promotion 2016



Being online enables us to use technology to offer nutritional information and healthier choice alternatives to our customers as they undertake their shop with us. During 2016, the "Seasonality" campaigns have proven particularly popular, highlighting and encouraging customers to eat what is in season, supported by associated recipes and promotions.

In an online world, we can't give customers the opportunity to leave food donations in store, as some retailers do. So we looked for a better way. December 2014 saw us launch "Donate Food with Ocado", an alternative food donation scheme whereby customers make a financial donation to buy food for our local food bank partners, and we match it with groceries that we donate. This has continued to prove popular with customers, and during the financial year more than £179,278 of food has been provided to food banks. The beauty of the scheme is that it allows food banks to get the specific foodstuffs that they need, predominantly fresh, refrigerated products.

Case Study

The North Warwickshire Food Project

"Over the last 12 months, the North Warwickshire Food Bank, in partnership with the Council, local Citizens Advice Bureau and a homelessness charity has been supplied almost exclusively through the fantastic partnership we have with the Ocado operation in Dordon. This brilliant and innovative arrangement has enabled us to develop a service offer over the last three years with Ocado that initially saw us able to support families and individuals impacted by welfare reforms via the provision of emergency food parcels. In the last 12 months alone, this has enabled us to issue over 1,600 food parcels that has helped support more than 5,500 individuals. Without this support, the ability of these residents to cope with their crisis need would have been significantly worse and cannot be underestimated."

North Warwickshire Food Bank partners and volunteers

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

We continue supporting farmers in South Africa and Kenya who supply us with fruit and vegetables via donating to the Waitrose Foundation. We made donations totalling £20,000 during the period of this report.

During the period we also made a donation of £260,000 to the Prince of Wales's Charitable Foundation, through sales of Duchy branded products.

No donations were made by the Group to any political party, organisation or candidate during the period (2015: nil).

The Ocado Foundation

The Ocado Foundation was established in April 2015 with the aim of our employees and customers helping us make well-aimed actions at a local level across the UK. We try to make donations to multiple small, local charities, selected by employees across Ocado nationally, rather than providing support only to a single "household name" major charity.

During the last 12 months, almost £15,000 has been donated to charities across the UK by colleague's activities that have been matched in funds by the Ocado Foundation. Colleagues have also volunteered more than 2,000 hours to a variety of good causes.

The legislation that came into effect in October 2015 requires a 5p charge on all new single use carrier bags in England. Given the aim of the legislation is to reduce bag littering and damage to wildlife, we believe that this is best done by removing the bags from circulation. During the period, we have collected 102.7 million bags from customers preventing them from becoming litter in the first place. The Ocado Foundation is custodian of the remaining funds from the carrier bag charge and disburses the donations.

One such example of our donation is our partnership with WRAP and the Recycle Now schools campaign. Some of the proceeds from the carrier bag charge is funding the development and dissemination of primary schools resources about recycling and sustainability.

Ocado's partnership with WRAP and Recycle Now school campaign

Case Study

In 2016, Ocado partnered with The Real Junk Food Project (TRJFP), a charity intercepting food destined for waste and using it to create healthy meals for its Pay As You Feel cafes located across the UK and worldwide.

The efficient planning of Ocado's business model means that there is a very small amount of food waste. The area that cannot be planned is customer cancellations.

Food is donated to TRJFP when a customer cancels an order that has already been picked and packed. The order is returned to the distribution site, stored at the correct temperature and collected every day by TRJFP.

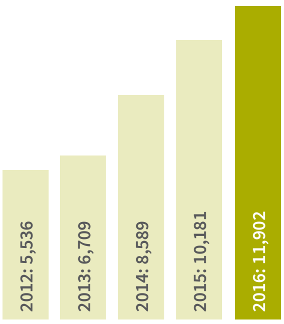
Adam Smith, founder of TRJFP, says: "Ocado runs an incredibly streamlined and efficient operation in regards to product sourcing, variety and delivery logistics. The style and quality of food and the regularity of deliveries we are receiving from Ocado is incredible. The variety of Ocado food that we've used to create tasty and healthy meals has attracted more and more customers to the cafés, especially in Leeds. Coupled with that, the Ocado team is able to let us know what we'll receive the day before we collect the products, so our chefs can plan menus in advance. This ensures no food is wasted in our cafes."

During the year, we have rolled this partnership out to numerous sites across the UK and continue to look for innovative ways to reduce food waste."

Ocado working with The Real Junk Food Project, Leeds

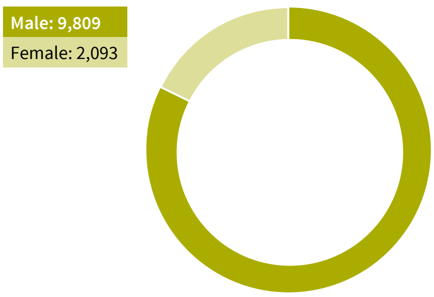
14. Our People

All Employees



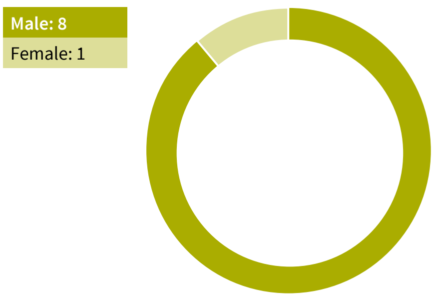
All Employees

Number of employees as at period end



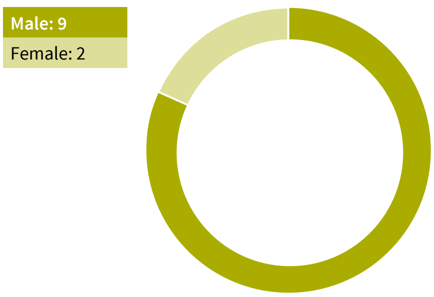
Senior Managers

Senior Managers means the Management Committee excluding Executive Directors as at period end



Directors

Number of Directors as at period end



We Value Our People

We are a business that values our people. We listen to their opinions on customer service, operational efficiency and what it means to be an Ocado employee. We aim to understand our employees as well as we understand our customers and innovate and change together to match the pace of growth in our markets.

We Recruit Talent

Our business is built by employees who innovate, who find solutions, and who deliver world class service. Our recruitment team has been effective in meeting the significant challenge of hiring the new employees needed for our continuous growth.

We opened two spokes in 2016 and moved a third to new premises. Our delivery driver team is the largest in our business. We call them our Customer Service Team Members, and their job title describes how they are essential to the success of Ocado.

With our third CFC in Andover now having commenced operations and our fourth CFC in Erith under construction, we plan to create even more opportunities for existing and new employees in 2017.

In September 2016 we brought in a record 47 university graduates under our seven separate graduate training schemes, covering Logistics Development, Engineering, Finance, General Management, HR, Retail and Operations Management, cementing our place as a significant employer and creator of new graduate jobs.

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.

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

Engaging Our People

This extends beyond keeping colleagues informed of the Company's performance and issues that affect them day to day. These range from redesigning uniforms in conjunction with employee representatives, to relocating our head office to one with a higher quality work environment. We provide access to healthy eating options with an onsite restaurant; and for all our CFC-based employees, there is access to a discounted Company shop.

We've increased our use of technology for internal communications by introducing mobile friendly platforms including a new employee benefits portal – MiBenefits – and increased the development of mobile apps – MiOcado – and other web-based plasma technology.

We also encourage formal two-way communication through our employee surveys 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.

We Develop Our People

Training and developing employees is a vital part of enabling them to forge their career with Ocado. We place strong emphasis on developing our talent across the business and have further embedded appraisals, 1:2:1s and 360 degree employee feedback as a development tool. Using talent matrix mapping and succession planning we also identify potential successors for every middle and senior management role.

Developing people is exciting, but also a challenge when growing a business as fast as we are. We now have an in-house management training curriculum of more than 300 e-learning modules and over 30 different workshops, team building days, a learning library and provide individual coaching.

MiLearning Platform

At Ocado we recognise the importance of meeting colleagues' learning and development needs in the most flexible way possible.

So, we've developed an online platform that delivers beyond the more traditional classroom-based training.

MiLearning has a wealth of information and learning activities and provides a gateway to:

- Explore and diagnose learning needs
- Identify solutions to address learning needs
- Record learning and development activities
- Share learning activities with others

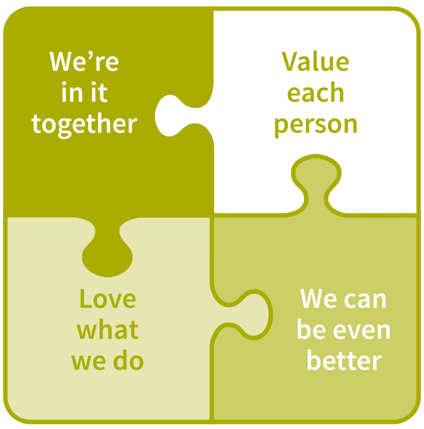
Retaining, Recognising and Rewarding Our People

As we invest a significant amount of time and resources in recruiting the right people and developing their skills, retaining our employees is vitally important to the business. This means designing benefits packages that are in tune with what different groups of employees want. This year information about Reward and Benefits were moved to an online portal – MiBenefits – a mobile friendly platform designed especially for every employee so they see only what is relevant and available to them. For the first time, we will be producing a personalised Total Reward Statement for each employee, setting out the full value of their remuneration.

We have a range of traditional benefits and an industry leading 15% employee discount on all shopping at Ocado. We have a commitment to ensuring that all employees share in the Group's success through various equity schemes. Employees are also 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. For the third year running we also gave free shares equivalent to 1% of basic pay to all employees with six months or more service.

We strive to make Ocado an employer of choice and our comprehensive employee benefits package includes pension schemes with employer contribution, and an employee assistance programme for all.

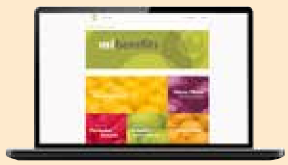
People Values



Case study

MiBenefits – an online benefits portal – is accessible on any device for remote and non-desk based employees to see personalised information about Ocado share plans, plus a variety of rewards and discounts on Ocado, Fabled, Fetch and Sizzle, as well as high street shops, gyms, theme parks, and more.

Employees can view their current pension membership, change contribution levels, or join/leave a pension scheme. They can also change their beneficiary and much more. In the future, MiBenefits will provide employees with an opportunity to "flex the benefits they receive, giving our employees further choice.



Strategic Report Approval

The Company's Strategic Report is set out on pages 6 to 43.

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

Neill Abrams
Group General Counsel and Company Secretary
Ocado Group plc
31 January 2017

Governance

Lord Rose
Chairman

15. Chairman's Governance Introduction

"The entrepreneurial behaviour at Ocado underpins the growth of our business . . . supported by the Group's robust governance framework and its values."

Dear Shareholder,

On behalf of the Board, I am pleased to present Ocado's Statement of Corporate Governance for 2016.

As I have reported in previous years, the entrepreneurial behaviour at Ocado underpins the growth of our business and enables the Company to lead the online grocery retail market. Importantly, this is supported by the Group's robust governance framework and its values. The Board takes overall responsibility for the Group's governance and culture. When discussing reports from management and functions such as Internal Audit & Risk the Board looks for alignment between the Group's culture and values and the behaviours shown by employees and other stakeholders.

Leadership and Board Effectiveness

The Board provides entrepreneurial leadership to the Company and oversees the strategy of the Group, as well as having overall responsibility for the Group's performance, creating accountability, and managing risks that face the Group. As the business grows and meets new challenges and opportunities, the smooth operation of the Board is key. We are mindful that it is important for the Board to be composed of those personnel that are best placed to provide the appropriate constructive debate on the Group's strategic direction with a diverse range of skills and experiences which collectively are both complementary and directly relevant to Ocado's strategy. This year's annual Board performance review was facilitated externally and provided a good opportunity for the Board to take an in depth look at its effectiveness and composition.

On 18 November 2016 we announced some changes to the Board. Firstly, the appointment of Emma Lloyd as Non-Executive Director with effect from 1 December 2016. Emma brings to the Board significant experience in technology and strategic partnerships, at a time when the Group is positioning itself to grow the platform business. In addition, Robert Gorrie will step down from the position of Non-Executive Director with effect from the AGM on 3 May 2017. Robert Gorrie has made a very significant contribution to the Board during almost 17 years of service, first as an Executive Director and then as a Non-Executive Director and he leaves with our sincere thanks and best wishes. These recent Board changes follow the appointment of Andrew Harrison in early 2016. Andrew has significant experience in the technology and retail sectors and with establishing international ventures, which should provide valuable insight as the Group pursues partnerships with overseas retailers. David Grigson retired from the position of Senior Independent Director in May 2016, having made a significant contribution to the Board since 2010. Further details are set out in the report on the activities of the Nomination Committee found on pages 64 and 65.

Accountability and Risk

The Board periodically discusses risk management and the principal risks facing the Group. The Audit Committee has played an important role in monitoring the Group's risk and assurance systems, including in relation to strategically important projects such as the new CFCs. The Audit Committee reviewed the reporting framework on controls being used by the business, including for the Ocado Smart Platform, which was an important step both for the retail business and in readiness for the platform business.

Remuneration and Engagement with Shareholders

Our Executive Director remuneration arrangements are designed to incentivise and support the achievement of our business objectives and sustain long-term value for shareholders. The Remuneration Committee oversees the 2014 Directors' Remuneration Policy and this year has made a number of minor changes to it in order to further align it with best practice from a corporate governance perspective and with shareholder expectations. The Directors' Remuneration Policy will be put to shareholders at the AGM on 3 May 2017. The new 2017 Policy retains its emphasis on long-term incentives, aims to reward achievement of core financial objectives and outstanding growth in the value of the Group relative to the FTSE 100 over the longer term. Further detail and the new 2017 Policy can be found in the Directors' Remuneration Report on pages 80 to 96.

Statement of Corporate Governance[1]

The Statement of Corporate Governance for 2016 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 76 to 115. The Group's risk management and internal control framework and the Group's principal risks and uncertainties are described on pages 34 to 37.

Lord Rose
Chairman
Ocado Group plc

1. These sections form part of this Statement of Corporate Governance. The Directors' Remuneration Report on pages 76 to 115, the Directors' Report on pages 66 to 73 and the going concern and viability statements on page 35 also contain information required to be included in this Statement of Corporate Governance, and so are incorporated into this statement by reference.

16. Board of Directors

Lord Rose
Chairman, 67

Appointment to the Board
11 March 2013
Committee Membership
Nomination (Chairman)
External Appointments
Chairman of Fat Face Group Limited; Chairman of Oasis Healthcare Limited; Chairman of Stylemania Limited, trading as Dressipi; Non-Executive Director of RM2 International S.A.; Non-Executive Director of Woolworths Holdings Limited, listed in South Africa; Chairman of Majid Al Futtaim Retail based in Dubai; Non-Executive Director of Time Out Group plc
Relevant Experience
Lord Rose has worked in retail for over 40 years. He has held Chief Executive Officer positions at Argos plc, Booker plc, Arcadia Group plc and Marks and Spencer plc. He was Chairman of Marks and Spencer plc from 2008 to 2011. Lord Rose was knighted in 2008 for services to the retail industry and corporate social responsibility, and granted a life peerage in August 2014.

Tim Steiner, OBE
Chief Executive Officer, 47

Appointment to the Board
13 April 2000
Relevant Experience
Tim is the founding Chief Executive Officer of Ocado, which he started in 2000. Prior to Ocado, he spent eight years 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, 51

Appointment to the Board
1 September 2012
External Appointments
Senior Independent Director and Audit Committee Chairman of Zoopla Property Group plc
Relevant Experience
Prior to joining Ocado, Duncan was Chief Financial Officer of Fitness First plc, and previously Group Finance Director of Kingfisher plc, one of the world's largest home improvement retailers. He has also been Finance Director of B&Q plc, Chief Financial Officer of Virgin Entertainment Group and held various senior finance positions at Burton Group Plc. Duncan holds a master's degree in Engineering from King's College, Cambridge. He is also a member of the Chartered Institute of Management Accountants.

Mark Richardson
Chief Operations Officer, 52

Appointment to the Board
3 February 2012
External Appointments
Non-Executive Director of Paneltex Limited
Relevant Experience
Mark was Head of Technology at Ocado from 2001 until he joined the Board in 2012. He is responsible for the day-to-day running of the Ocado operation, including CFCs, logistics developments, customer service, business planning, engineering and technology. Mark is a Director of Paneltex Limited, a company in which the Group holds a 25% shareholding. Prior to joining Ocado, Mark held a number of IT positions at the John Lewis Partnership, including Head of Selling Systems at Waitrose. He graduated from University College, London with a degree in Physics.

Neill Abrams
Group General Counsel and Company Secretary, 52

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 Corporate Responsibility. Prior to Ocado, he was a barrister in practice at One Essex Court and spent nine years at Goldman Sachs in London in the investment banking and legal divisions. Neill holds degrees in industrial psychology and law from the University of the Witwatersrand in Johannesburg and a Masters in Law from Sidney Sussex College, Cambridge. He is a member of the Bar of England and Wales, the New York Bar and a South Africa Advocate.

Alex Mahon
Non-Executive Director and Senior Independent Director, 43

Appointment to the Board
1 June 2012
Committee Membership
Audit, Nomination
External Appointments
Chief Executive Officer of The Foundry Visionmongers Limited, trading as The Foundry; Non-Executive Director of the Edinburgh TV Festival
Relevant Experience
Alex was appointed the Chief Executive Officer of the leading design and visual effects software firm, The Foundry, in November 2015. Alex was previously CEO of Shine Group, a global television content production company and before Shine Group, 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.

Ruth Anderson
Non-Executive Director, 63

Appointment to the Board
9 March 2010
Committee Membership
Audit (Chairman), Remuneration, Nomination
External Appointments
Non-Executive Director of Travis Perkins plc; Non-Executive Director of Coats Group plc; Trustee and Director of The Royal Parks; Trustee of The Duke of Edinburgh's Award
Relevant Experience
Since retiring from KPMG seven years ago Ruth has gained non-executive director experience at three UK listed companies and chairs the audit committee at all three. She was a vice-chairman of the accounting and advisory firm KPMG in the UK from 2004 to 2009 and a member of the KPMG UK board from 1998 to 2004. She is a fellow of the Institute of Chartered Accountants in England and Wales and a member of the Chartered Institute of Taxation.

Douglas McCallum
Non-Executive Director, 50

Appointment to the Board
3 October 2011
Committee Membership
Remuneration (Chairman), Nomination
External Appointments
Chairman of Trainline and PhotoBox; Founder and 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.

Jörn Rausing
Non-Executive Director, 56

Appointment to the Board
13 March 2003
Committee Membership
Nomination
External Appointments
Group Board Member of Tetra Laval; Board Member of Alfa Laval AB; Board Member of DeLaval Holding AB; Member of the Board of Governors of the Museum of London
Relevant Experience
Jörn has over 25 years' experience in corporate development and international mergers and acquisitions. Jörn holds a degree in Business Administration from Lund University, Sweden.

Robert Gorrie
Non-Executive Director, 57

Appointment to the Board
1 April 2000
Committee Membership
Nomination
External Appointments
Chairman of Tyres on the Drive Limited
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.

Andrew Harrison
Non-Executive Director, 46

Appointment to the Board
1 March 2016
Committee Membership
Audit, Remuneration, Nomination
External Appointments
Deputy Chief Executive of Dixons Carphone Plc; Trustee to the charity The Mix
Relevant Experience
Andrew was appointed Deputy Group Chief Executive of Dixons Carphone Plc in August 2014. He was previously Chief Executive Officer of Carphone Warehouse Plc. Having joined in 1995, Andrew was appointed UK CEO of Carphone Warehouse in 2001. He led the growth of the UK business to become the market leader in the mobile sector, and developed the fixed line strategy which led to the creation of the TalkTalk division. Andrew was responsible for taking Carphone Warehouse to the US in 2006, and instrumental in the creation of the highly successful Best Buy Mobile JV. From 2009 Andrew was responsible for both Carphone Warehouse and Phone House operations, becoming Chief Executive Officer of the Best Buy JV in 2010. Andrew graduated with a BA in Management Studies from the University of Leeds in 1992.

Emma Lloyd
Non-Executive Director, 47

Appointment to the Board
1 December 2016
Committee Membership
Nomination
External Appointments
Director of Corporate Development, Partnerships and Investments of Sky plc
Relevant Experience
As Sky's Group Director of Business Development and Strategic Partnerships Emma identifies and nurtures key strategic relationships with Sky's technology partners. Emma has overseen the creation of Sky's start-up venture investment function and US presence, leading to the investment in over 20 technology start-ups. Previously Emma was Sky's Director of Emerging Products, where she led a team that focused on identifying new product opportunities across TV, online and mobile. In this position, she played a key role in the early development of Sky's award-winning multiplatform TV service, Sky Go. Emma joined Sky in January 2008 as a Business Development Director. She started her career in management consulting, where she has ten years business consulting and mobile telecommunications experience. Emma graduated with a BA Joint Hons in Management Studies and Geography from the University of Leeds in 1992.

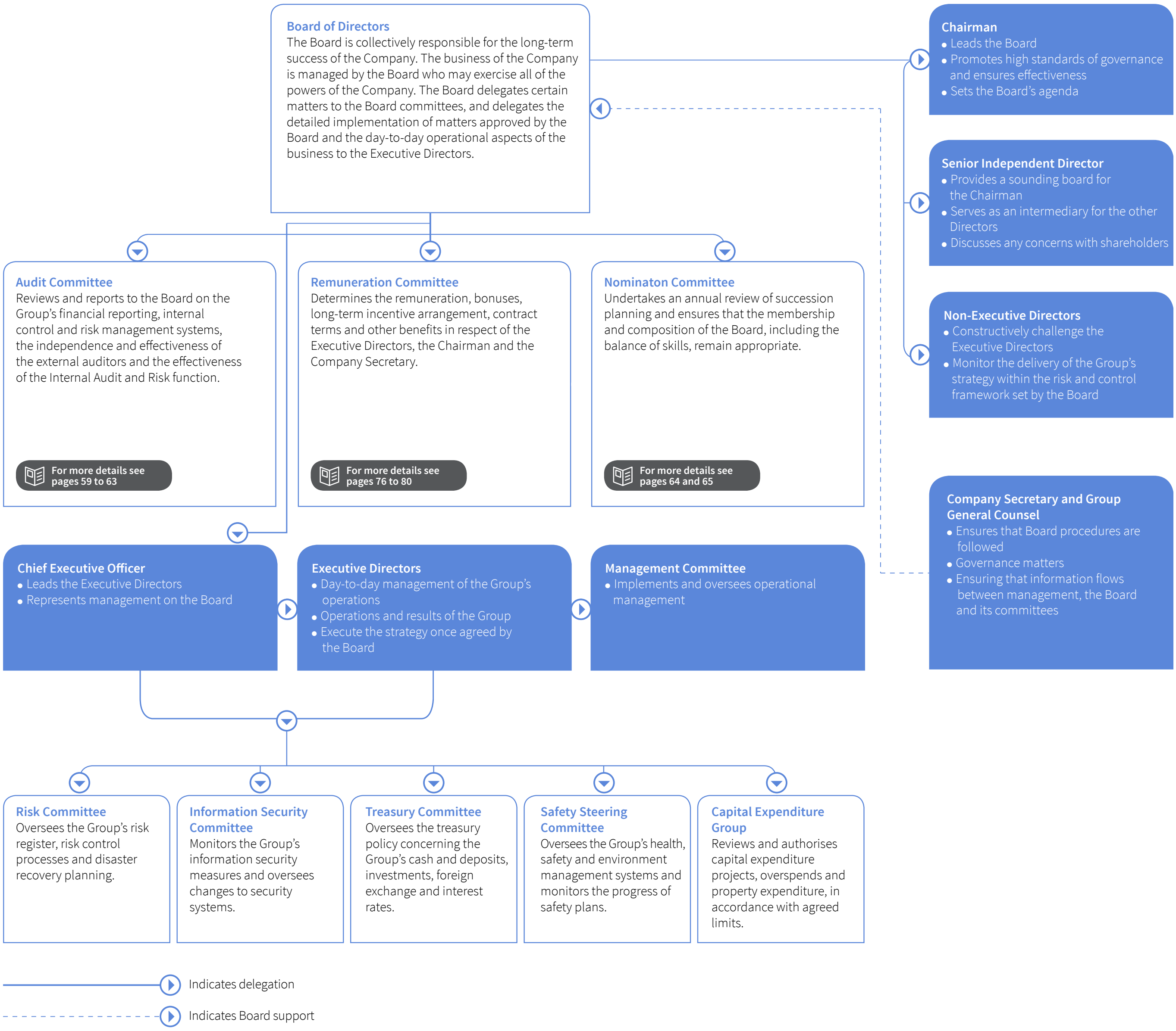
17. Statement of Corporate Governance

Leadership

Board Structure

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

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



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

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

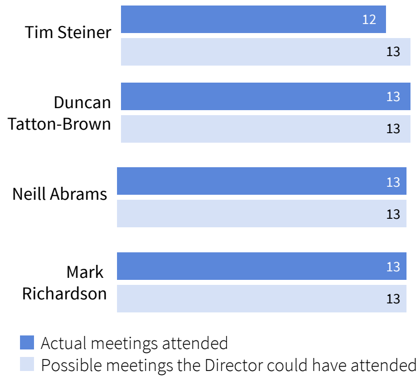
The full terms of reference for each Board committee are available on the Company's corporate website (www.ocadogroup.com) and reports by each Board committee are given in this Annual Report.

Board Responsibilities and Actions

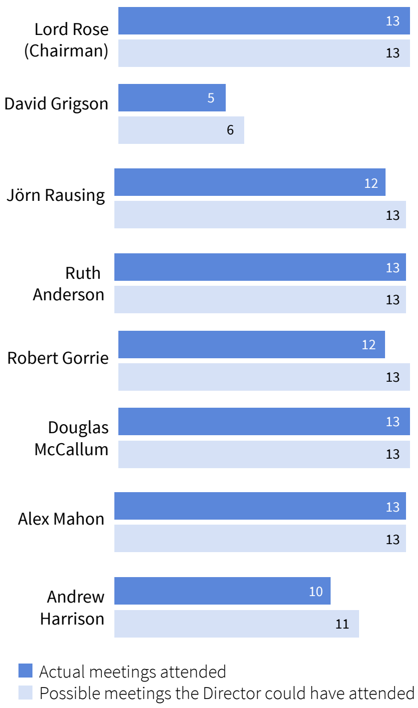
	Strategy, performance and financing	Reporting, risk management and accountability controls	Oversight of the Group's operations and technology development	People, governance and corporate responsibility
Responsibility				
Specific actions during the period	Annual strategy conference to review and set the Group's strategy. Overseeing Ocado Smart Platform negotiations and discussions with Morrisons and Waitrose.	Annual review of key risks and risk appetite and reviewing reports of risk management. Review of reports on specific risk areas including OSP control environment.	Approving the annual budget, the business plan for the Group and individual capital expenditure projects.	Approving the Group's human rights policy and modern slavery statement.
	Monitoring grocery retail competitor activity.	Reviewing and approving the Group's regulatory results announcements and reports.	Receiving reports on patent protection of the Group's technology.	Receiving report on people issues. Discussing Board composition.
	Receiving reports from senior management on trading, business performance and financing.	Reviewing reports on health, safety and environment, litigation, investor relations and legal and Company secretarial matters.	Site visit to Andover CFC to understand the operational and technology issues the business faces. Receiving regular reports on key projects including the new technology, the IT replatforming and the Andover and Erith CFCs.	Receiving various reports on governance and regulatory changes. Approving the Group's new share dealing policy and processes.

17. Statement of Corporate Governance

Board Attendance
Executive Directors



Board Attendance
Non-Executive Directors



1. Where a Director has not attended a Board meeting, it was due to a conflicting prior commitment or illness.
2. Andrew Harrison was appointed to the Board on 1 March 2016.
3. David Grigson resigned from the Board on 4 May 2016.
4. Emma Lloyd was appointed on 1 December 2016, after the period ended.

Board Attendance

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

Composition of the Board

Review of Board and Board Committee Composition

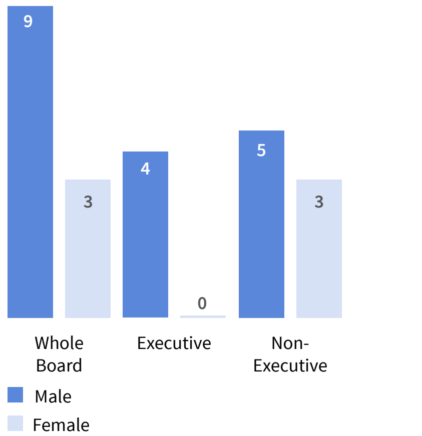
As noted on page 46, a number of changes were made to the composition of the Board. In making changes to the Board, the Board's review of composition took into account various considerations including length of Director tenure, Board diversity, independence and the mix of skills and experience of the Directors. Some of these considerations are outlined below.

Board Diversity

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

When the appointment of Emma Lloyd takes effect and after the resignation of Robert Gorrie, the Board will have 27% female membership. The Board has made significant progress in improving the gender balance on the Board. In 2009, the Board had no female representation. Despite this, the Board recognises there is further work to do to improve female participation in executive and senior management positions and to improve ethnic diversity on the Board. 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 (or ethnicity) on the Board, the Board is committed to increasing the percentage of women on the Board and in senior positions in the Company. Any future Board appointments will continue to be based on objective criteria to ensure that the best individuals are appointed for the role. For more information on diversity in respect of all the Group's employees, see the Our People section on pages 42 and 43. The chart above illustrates the diversity of the Board in terms of gender (as at the date of this Annual Report).

Gender Diversity



1. The chart includes Robert Gorrie, who will retire at the AGM on 3 May 2017, and Emma Lloyd, who was appointed on 1 December 2016.
2. The chart excludes David Grigson, who retired at the AGM on 4 May 2016.

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

Board Tenure

The Board also takes into account the length of tenure of existing Directors when considering reappointment and succession planning. Ruth Anderson will have served seven years (in March 2017) as a Director and both Robert Gorrie and Jörn Rausing have served as Directors for over 13 years and accordingly their reappointments to the Board were subject to particular scrutiny (including the importance of maintaining Board continuity). The chart on the right illustrates the tenure of Directors (as at the date of this Annual Report).

Independence

The Code recommends that at least half of the Board, excluding the Chairman, should comprise Non-Executive Directors determined by the Board to be independent. Since, excluding the Chairman, there are seven Non-Executive Directors all determined by the Board to be independent and four Executive Directors, the Board complies with this recommendation. The second chart on the right illustrates the current composition of the Board in respect of the independence of its members (as at the date of this Annual Report).

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

Scrutiny by the Board

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

Jörn Rausing

Jörn Rausing has been a Director for almost 14 years, although less than seven of these have been in the era of the Company as a listed company. Jörn is a beneficiary of the Apple III Trust, which owns Apple III Limited, a material (approximately 11%) shareholder of the Company. He is not a representative of the Apple III Trust, nor does the Apple III 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 Group and supports the principles of the Code. His significant international business experience at Tetra Laval enhances the balance of skills and experience on the Board, especially at a time when the Group is starting to expand outside of the UK, and reinforces the long-term perspective of the Board's decision-making.

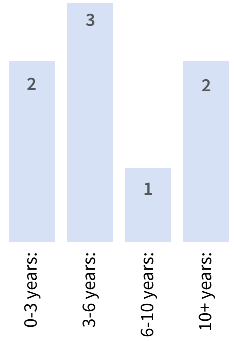
The Board considers Jörn to be independent in character and judgement and does not believe that the size of Apple III Limited's shareholding or the length of Jörn's tenure on the Board amounts to a relationship or circumstance which affects his judgement. Jörn has stood for re-election annually since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

Robert Gorrie

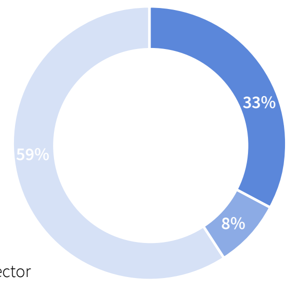
Robert Gorrie has been a Director for almost 17 years, but less than seven of these have been in the era of the Company as a listed company. Robert will retire at the 2017 Annual General Meeting, but during the period, the Board remained assured of Robert's independence. Robert has acted as the non-executive chairman of the Ocado National 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 £900 fee during the period for performing this role (2015: £6,000). 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 Group's complex IT and logistics operations was of benefit to the Board in assisting it to formulate the Group's strategy, including its strategy for international expansion, and his prior experience of running a logistics operation in the USA was helpful in monitoring the execution of that strategy. The Board does not consider that the Ocado National Council constitutes a material business relationship with the Group, nor the additional consultancy fee to be material in the context of impacting Robert's judgement. Moreover, the Board considers his role on the Ocado National Council to have been 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 by shareholders.

Length of Tenure of Chairman and Non-Executive Directors



Board Independence



1. The charts above include Robert Gorrie, who will retire at the AGM on 3 May 2017, and Emma Lloyd, who was appointed on 1 December 2016.
2. The charts above exclude David Grigson, who retired at the AGM on 4 May 2016.

17. Statement of Corporate Governance

Board 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.

Board Effectiveness Review Cycle

2014	2015	2016
Internal performance review. Progress against external review assessed.	Internal performance review of progress.	Independent, externally facilitated review.

The Board review for 2016 was facilitated externally by Independent Audit Limited. The review followed two years in which an internally facilitated review had been conducted by the Company Secretary.

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

Conclusions from this Year's Review

The review concluded with a final report and feedback session with the Chairman and a presentation to, and discussion with, the Board at a Board meeting. The report contained extensive commentary on the effectiveness of the Board, the Board committees, the Non-Executive Directors, the Executive Directors as well as on the Company Secretariat and the support provided to the Board by management. Some of the findings and actions areas are shown below.

Focus areas	Some key findings and actions
Strategy Strategy development, review of performance against strategic objectives	• The Board held a successful strategy day in June 2016, with good quality discussion. • The strategy and its performance objectives are clear and have been agreed with management.
Performance Reporting of performance against strategic objectives	• The Board should continue to have presentations from management, with presentations from more members of management and a broader range of topics so that the Non-Executive Directors gain more visibility and insight into the business.
Board composition Committees, skills, diversity, size, appointment, succession and tenure	• The Board and its committees are of an appropriate size and mix of skills. • The Board continues to focus on succession planning in the medium- and long-term.

Areas of focus for 2017

Some of the potential areas for the Board to consider in 2017 that were highlighted in the review include:

- Continue to manage and plan succession for Board members.
- Maintain ongoing focus on strategy execution and review, following the successful strategy day.
- Ensure that the Board reviews culture and has greater visibility of people-related matters.
- The Board will consider opportunities for more informal meetings to encourage broad-ranging discussions between Board members.

The overall conclusion from the report was that the Board and its committees operate effectively, engaging in a high level of debate and constructive challenge.

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

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

Director Election

Each Director is required under the Articles to retire at every annual general meeting (each Director may offer himself or herself for re-appointment by the members at such meeting). At the last annual general meeting on 4 May 2016, all of the current Directors (except David Grigson who was retiring, and Emma Lloyd who had not yet been appointed) stood for re-appointment, and were duly elected with a range of 83% to 99% of votes cast by shareholders in favour of re-appointment.

All Directors, except Robert Gorrie, will retire and seek re-election at the AGM. New Non-Executive Director, Emma Lloyd, whose appointment took effect on 1 December 2016, will also retire and seek re-election at the AGM. The explanatory notes set out in the Notice of Meeting state the reasons why the Board believes a Director proposed for re-election at the AGM should be re-appointed. The Board has based its recommendations for re-election, in part, on its review of the results from the Board evaluation process outlined above, on the reviews of the Chairman (led by the Senior Independent Director) and of the Executive Directors conducted at the meetings of the Non-Executive Directors, the Chairman's review of individual evaluations, and whether a Director has demonstrated substantial commitment to the role (including time for Board and committee meetings (noted below) and other responsibilities, taking into account a number of considerations including outside commitments and any changes thereof (outlined in this Statement of Corporate Governance on page 56) during the period).

The rules that the Company has about the appointment and replacement of Directors are described in the Directors' Report on page 67.

Board Induction and Professional Development

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

The Board and committees receive training, including in specialist areas. Training is typically arranged by the Company Secretary in consultation with the Chairman or committee chairman. The members of the Remuneration Committee received updates from the Remuneration Committee's remuneration advisers, Deloitte LLP, including on the new remuneration reporting market practices. The members of the Audit Committee received training from the Company's external auditors, PwC, on new lease accounting requirements, the cyber security risks and the software as a service reporting framework. Members of the Audit Committee receive written technical updates from PwC to keep them abreast of the latest accounting, auditing, tax and reporting developments. The Company Secretary also provides updates to the Board and the committees on governance and regulatory changes impacting the Group (for example, the requirements of the new Market Abuse Regulations and the Statutory Audit Directive).

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.

17. Statement of Corporate Governance

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 48 and 49.

Director	Change in Commitment	Effective Date of Change
Lord Rose	Appointed Non-Executive Director of Time Out Group plc	June 2016
	Appointed Chairman of Open Britain Limited	December 2015
	Resigned as Chairman of Open Britain Limited	September 2016

Whenever a Director takes on additional external responsibilities, the Board considers any potential conflicts that may arise. The Board monitors any potential conflicts of interest. The Companies Act provides that Directors must avoid a situation where they have, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests. Boards of public companies may authorise conflicts and potential conflicts, where appropriate, if a company's articles of association permit (which the Articles do).

Each Director is required to disclose conflicts and potential conflicts to the Chairman and the Company Secretary. As part of his or her induction process, a newly appointed Director completes a questionnaire which requires him or her to disclose any conflicts of interests to the Company. Thereafter each Director has an opportunity to disclose conflicts at the beginning of each Board and Board committee meeting. 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. The system in place for monitoring potential Director conflicts remained effective during the period.

Engagement with Shareholders

Investor Relations

The Company is committed to keeping shareholders informed of its strategy and progress. The Chairman has overall responsibility for ensuring that the Company has appropriate channels of communication with its shareholders and is supported in this by the Executive Directors. The Company regularly meets with its large investors and institutional shareholders who, along with analysts, are invited to presentations by the Company after the announcement of the Company's results. The Company conducts bi-annual investor roadshows and also addresses current and prospective shareholders at various investment conferences and other events, both in the UK and abroad. The Board regularly receives feedback from the Company's brokers 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 Alex Mahon, the Senior Independent Director, are available to the Company's shareholders for discussions. The Chairman and Senior Independent Director met with some of the Company's shareholders following Alex's appointment as Senior Independent Director to discuss various matters including Group trading, strategy and developments, corporate governance and executive remuneration. The Chairman reports to the Board on these discussions. We held a number of investor days for our core shareholders at our new CFC in Andover in late 2016.

Directors' Remuneration Policy

This year the Remuneration Committee has proposed a number of minor changes to the 2014 Directors' Remuneration Policy. The new 2017 Policy will be put to shareholders at the 2017 AGM. The Company notified its largest shareholders of the key changes to the policy in order to illicit any feedback ahead of its publication. For more information on the Directors' Remuneration Policy, please refer to the Remuneration Committee report on pages 80 to 96.

Changes to the Company's Resolution Regarding Share Allotment

The Group also engages with shareholders in the event of a substantial vote against a resolution proposed at an annual general meeting. The Company Secretary had consulted some shareholders in recent years about the Company's share allotment shareholder authorities.

At the 2016 annual general meeting, the Company's share allotment resolutions received less support than expected by management. The Company consulted the large shareholders who did not support the resolutions. The Company Secretary received feedback from the shareholders that indicated the shareholders had governance policies that were not wholly aligned with the Pre-Emption Group's Statement of Principles and Investment Association guidance. In response to shareholder feedback the Company changed its approach to share allotment authorities for the 2017 AGM. For more information on the resolutions proposed for the 2017 AGM, please refer to the Directors' Report on pages 66 to 73.

Formal Reporting to Shareholders and Directors' Responsibility

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

The Directors take responsibility for preparing this Annual Report and make a statement to shareholders to this effect. The statement of Directors' responsibility on pages 72 and 73 of this Annual Report is made at the conclusion of a robust and effective process undertaken by the Company for the preparation and review of this Annual Report. The Directors believe that these well-established arrangements enable them to ensure that the information presented in this Annual Report complies with the disclosure requirements including those in the Companies Act, and is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy. In addition to this Annual Report, the Company's internal processes cover (to the extent necessary) the 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:

- review of and feedback on iterations of this Annual Report by the Executive Directors and the full Board;
- focused review of specific sections of this Annual Report by the relevant Board committees;
- Audit Committee review of a management report on accounting estimates and judgements, auditor and management reports on internal controls and risk management, accounting and reporting matters and a management representation letter concerning accounting and reporting matters (for further information see pages 59 to 63);
- Board and Audit Committee review of management reports on assessments on going concern and viability;
- the Audit Committee regularly reporting to the Board on the discharge of its responsibilities;
- input from both internal and external legal advisers and other advisers to cover relevant regulatory and governance obligations;
- discussions between contributors and management to identify relevant and material information;
- detailed debates and discussions concerning the principal risks and uncertainties;
- review and approval by the external auditors; and
- separate approval by the Group General Counsel, the Board committees and the Board.

The statement by the external auditor on its reporting responsibilities is set out in the Independent Auditors' report on pages 118 to 124.

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 3 May 2017 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 76.10% to 100%.

17. Statement of Corporate Governance

Compliance with the Code

This Statement of Corporate Governance explains how the Company applies the main principles and complies with all relevant provisions set out in the UK Corporate Governance Code, September 2014 issued by the Financial Reporting Council (the "Code"), as required by the Listing Rules of the Financial Conduct Authority and meets other relevant requirements including provisions of the Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority.

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

Certain parts of this Statement of Corporate Governance have been reviewed by the Company's external auditors, PwC, for compliance with the Code, to the extent required.

Code Provision	Area	Explanation
D.1.1 and Schedule A	Design of performance-based remuneration	As explained on page 103, Directors are not required to retain shares from share incentive schemes for a period after leaving the Company.
D.2.2	Senior management remuneration	As explained on page 80, the Remuneration Committee monitors, but does not make recommendations concerning, the level and structure of remuneration for senior management of the Company.

The Financial Reporting Council updated the UK Corporate Governance Code in September 2016 (the "2016 Code"). The 2016 Code applies to reporting periods beginning on or after 17 June 2016, and so does not apply to the Company's reporting period ended 27 November 2016. However, the Board has, where appropriate and feasible, adopted the new provisions in the 2016 Code earlier than required and provides disclosure against these requirements in this Annual Report.

Further information on the Code and 2016 Code can be found at www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/UK-Corporate-Governance-Code.

Board Approval of the Statement of Corporate Governance

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

Lord Rose
Chairman

Neill Abrams
Group General Counsel and Company Secretary

Ocado Group plc
Registered in England and Wales, number 07098618
31 January 2017

18. Audit Committee Report

Ruth Anderson
Audit Committee Chairman

"During the year the Audit Committee oversaw the tender for the role of external auditors."

Dear Shareholder,

I am pleased to present the report of the Audit Committee for the financial year ended 27 November 2016.

Our report provides information concerning our oversight of the Company's financial reporting, assurance framework and internal controls.

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

A key responsibility of the Audit Committee during the year was overseeing the tender for the role of external auditors. The tender was completed in late 2016 and, based upon the Audit Committee's recommendation, the Board is proposing that shareholders approve that Deloitte LLP be appointed, effective from the 2017 Annual General Meeting. More detail about the external audit tender process can be found on pages 62 and 63.

The Audit Committee would like to thank each firm that participated in the tender and specifically to thank PwC on the Board's behalf, for their significant contribution to Ocado over the years.

During the year the Audit Committee reviewed the work being done to establish a control environment for the Ocado Smart Platform by Internal Audit and Risk. Internal Audit and Risk oversaw the design of the control model and the Audit Committee has received, and will continue to receive regular updates and reports.

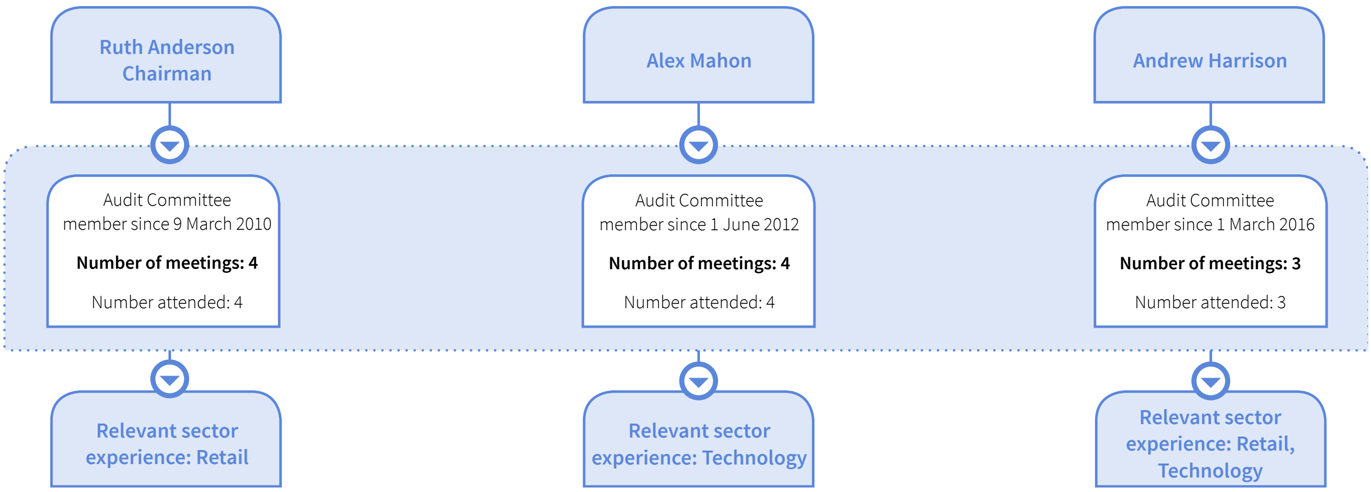
These matters, as well as its other key responsibilities, are outlined in more detail below. I will be available at the AGM to answer any questions about our work.

Ruth Anderson
Audit Committee Chairman
31 January 2017

Membership and meetings

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

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



At least one member of the Audit Committee (Ruth Anderson) is considered by the Board to have competence in accounting and all members have recent and relevant financial experience. Ruth Anderson is a chartered accountant with the Institute of Chartered Accountants in England and Wales. In line with the UK Corporate Governance Code 2016, the Audit Committee as a whole has competence relevant to the sectors in which the Company operates, notably the retail and technology sectors. Details of each Audit Committee member's relevant sector experience can be found in the diagram above. The biography of each member of the Audit Committee is set out in the Board of Directors section on pages 48 and 49.

During the year, the Audit Committee composition changed as a result of the retirement of David Grigson and the subsequent appointment of Andrew Harrison effective from 1 March 2016. David Grigson attended two meetings during the period, out of a possible two meetings, before his retirement from the Audit Committee on 4 May 2016.

Regular attendees at the Audit Committee meetings include the Chief Financial Officer, the Group General Counsel and Company Secretary, the Finance and Risk Director, the Head of Internal Audit and 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. The Deputy Company Secretary is the secretary to the Audit Committee.

18. Audit Committee Report

Key Areas of Focus for the Audit Committee

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

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

Monitoring the integrity of the financial statements of the Company, the financial reporting process and reviewing the significant accounting issues are key roles of the Audit Committee. The Board ensures this Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy and the Audit Committee plays an important role in assisting the Board in reaching those conclusions, including an assessment that the narrative reporting in the front of the Annual Report accurately reflects the financial statements in the back. For information concerning the process followed by the Company in preparing this Annual Report see page 57 of the Statement of Corporate Governance. The Audit Committee also monitors the financial reporting processes for the Group's half year report, which is a similar role to the one it carries out for full year reporting.

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

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

The table below summarises those significant issues which received particular focus from the Audit Committee in relation to the financial statements for the period and how these issues were addressed.

Area	Issue and Nature of Judgement	Factors and Reasons Considered and Conclusion	Impact on Financial Information and Disclosure in Financial Statements
Intangible Assets — Capitalisation of Internal Development Time and Costs	The capitalisation of internal development costs is material and involves management judgements as to whether the costs incurred meet the criteria in accounting standards for capitalisation, including the technical feasibility of the project and the likelihood of the project delivering sufficient future economic benefits. The key projects in 2016 have been the development of new technology used in Andover CFC and replatforming the non-CFC based software to a cloud-based solution.	Details of material technology projects which are being capitalised along with the rationale for capitalisation were presented to and reviewed by the Audit Committee. The criteria for identification of projects which may be treated as intangible assets and the process to capture the costs of these technology projects were discussed by the Audit Committee. The Audit Committee also discussed the need for any impairment of the existing carrying values of capitalised software and systems recognised as a result of the development of new software and systems and concluded an impairment was required.	The amount of £44.9 million of internal development costs has been capitalised within intangible non-current assets, as set out in note 3.1 to the consolidated financial statements on pages 141 and 142.
Cost of Sales - Supplier income (including commercial income, promotional allowances and volume rebates)	Commercial income is an area of focus due to the quantum of income recorded and its significance to the results of the period. Some parts of commercial income require management to apply judgement to ascertain the amounts and timings of income to be recognised where it relates to supplier transactions that span the period end. The amounts due from suppliers in relation to promotional activity and volume related sales targets are material.	The Audit Committee assessed management judgements regarding estimates of commercial income. This commercial income arises from a range of agreements with suppliers including annual agreements with many suppliers which include a financial reward for achieving pre-agreed sales volumes. The Audit Committee reviewed the basis of the judgements made by management and concluded these were appropriate.	See notes 2.1 and 3.8 to the consolidated financial statements on pages 134 and 148.
Revenue Recognition	New promotional initiatives impact on Revenue, Other Income and Cost of Sales.	Details of the nature of the new promotional activity were considered by the Audit Committee. They reviewed the management judgements and accounting treatment, which takes into account the method by which the customer is incentivised to shop and how the supplier reimburses some, or all, of the promotional cost of this incentive to Ocado. The Audit Committee concurred with conclusions reached.	The accounting treatment is included in the Consolidated Income Statement on page 125.

Area	Issue and Nature of Judgement	Factors and Reasons Considered and Conclusion	Impact on Financial Information and Disclosure in Financial Statements
Recognition of Deferred Tax Asset	The estimates used to support the future business profitability and recognised deferred tax asset require management judgement.	The basis of management estimates of future taxable profits of the Group and the process used to calculate the deferred tax asset recognised were reviewed by the Audit Committee. The Audit Committee assessed the reasonableness of the assumptions underlying the Group's future profits forecasts.	The amount of £14.2 million was recognised in the Consolidated Balance Sheet for the period. Details of the deferred tax asset are set out in note 2.8 to the consolidated financial statements on pages 138 to 140.
Exceptional Items Ⓐ	Whether the costs associated with the head office move to new buildings and material litigation costs should be treated as exceptional.	The Audit Committee assessed management judgements, took into account the views of the external auditors and concluded that the accounting treatment was appropriate given the one-off nature of these particular events.	Given the accounting treatment as exceptional, £2.4 million was included as an exceptional cost item in the Consolidated Income Statement. See note 2.7 of the consolidated financial statements on page 137.

The table above is not a complete list of all the Group's accounting issues, estimates and policies, but highlights the most significant ones for the period in the opinion of the Audit Committee.

The accounting treatment of all significant issues and judgements was subject to review by the external auditors. For a discussion of the areas of particular audit focus by the external auditors, refer to pages 118 to 121 of the Independent Auditors' Report.

The Audit Committee considers that the Company has adopted appropriate accounting policies and made appropriate estimates and judgements.

Share-based payments: Accounting for share-based payments is a recurring issue, but did not require a significant estimate or judgement during the period, unlike previous periods. Although there were no material new share schemes in the year requiring assessment, the Audit Committee remain aware of their assessments in the prior years and their accounting impact. The judgements historically mainly relate to vesting criteria, share price volatility and leaver assumptions for each of the schemes.

Segmental Reporting: 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.

Going Concern and Viability Assessments: The Audit Committee and the Board reviewed the Group's going concern and viability statements (as set out on page 35) and the assessment reports prepared by management in support of such statements. The external auditors reviewed management's assessment and discussed this review with the Audit Committee.

Tax Review: The Audit Committee also considered the Company's tax policy, 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 or access the necessary tax expertise to cater for the growth of the business in the future and the impending rule changes regarding tax disclosures and reporting of effective tax rates.

Internal Audit and Risk: Part of the assurance provided to the Audit Committee when reviewing the effectiveness of the Group's systems of internal control comes from Internal Audit and Risk. The Internal Audit and Risk plan, which was approved by the Audit Committee in January 2016, set out a number of activities for the period and the 2017 financial year, including assurance programmes for key strategic projects such as the new CFCs and the Ocado Smart Platform technology. These assessments of key programmes focus on several areas including programme management processes and governance for the project. The Internal Audit and Risk function recruited a new team member during the period to focus on technology assurance work.

In carrying out operational audits that test key controls designed to manage key risks to achieving the Group's strategic objectives, Internal Audit and Risk agrees recommendations with the relevant business area for implementation of appropriate actions. Management actions are tracked and the status of these actions are reported to the Audit Committee alongside progress against the Internal Audit and Risk plan. This helps mitigate the Group's risks.

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

Internal Audit and Risk effectiveness review: A review of the effectiveness of the Internal Audit and Risk function was carried out during the period by way of questionnaire completed by members of management and business operations, the Audit Committee members and the external auditors, as well as a self-assessment by the Head of Internal Audit and Risk. The assessment questionnaire asked questions to assess performance in a range of areas including planning and work programme, communication, reporting and performance. Having considered the results of this review and informal feedback from management and the external auditors provided during the period, the Audit Committee concluded that the Internal Audit and Risk function was effective. During the period, the Audit Committee met with the Head of Internal Audit and Risk, without management present.

Risk Review: The Board has ultimate responsibility for effective management of risk for the Group including determining its risk appetite, identifying key strategic and emerging risks, and reviewing the risk management framework. The Audit Committee, in supporting the Board to assess the effectiveness of risk management and internal control processes, relies on a number of different sources to carry out its work including an assessment report provided by management, Internal Audit and Risk assurance reports and the assurance provided by the external auditors and other third parties in specific risk areas. No significant failings or

A See Alternative Performance Measures on page 194

18. Audit Committee Report

weaknesses were identified for the period. As the Group's risk management framework evolves with the growth of the business new controls and processes are identified and actions are put in place to implement them. The Board discussed and reviewed the Group's risk appetite when reviewing the principal risks for the Group. Regular review of the risk appetite ensures that the Company's risk exposure remains appropriate and acceptable in enabling the Group to achieve its strategic objectives. The Audit Committee also reviews risk appetite and principal risks when considering the effectiveness of risk management system. Every year the Audit Committee focuses on particular risk areas identified in the Group risk register. During the period, management reported on the progress of the Group's business continuity plans and the Ocado Smart Platform control environment. The Audit Committee will continue to receive reports on these areas in future years. Further details of the risk review and the Group's risk management and internal control systems, including financial controls, are set out in the "How We Manage Our Risks" section on pages 34 to 37.

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 54, the Audit Committee carried out a review of its terms of reference. A number of changes were made to the Audit Committee's terms of reference to reflect changes in Disclosure Guidance and Transparency Rules and The UK Corporate Governance Code 2016, including with regards to Audit Committee competence and audit tender requirements.

Auditor Tender and Appointment Overview

Assessing the Effectiveness of the External Audit Process and the External Auditors

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 118 to 124). The Audit Committee also considered the audit scope and materiality threshold. The Audit Committee met with PwC at various stages during the period, including without management present, to discuss their remit and any issues arising from the work of the auditors.

The Audit Committee reviewed the performance of PwC based on a questionnaire that contained various criteria for judging their effectiveness and on feedback from management. The criteria for assessing the effectiveness of the audit included the robustness of the audit, the quality of the audit delivery and the quality of the people and service. The results of the questionnaire were reviewed by the Audit Committee. The Audit Committee also met with management, including without PwC 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 reported to the Audit Committee that it had considered its independence in relation to the audit and confirmed to the Audit Committee that it complies with UK regulatory and professional requirements and that its objectivity is not compromised. The Audit Committee took this into account when considering the external auditors' independence and concluded that 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

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

Non-Audit Work Undertaken During the Period: The total of non-audit fees, audit fees and audit-related services fees paid to PwC during the period is set out in Note 2.5 of the consolidated financial statements on page 136. The non-audit services fees of £50,000 (2015: £37,000) paid to PwC related to: (1) advice on the Company's Greenhouse Gas Assurance Report (further details of which can be found in the Corporate Responsibility section on page 39); (2) an engagement concerning Ocado Smart Platform controls assessment; and (3) advice covering the establishment of the Group's Spain office during the period. All non-audit work engagements were approved by the Chief Financial Officer as the fees concerned were well within the approval thresholds set under the policy. In the case of each engagement, management considered it appropriate to engage PwC for the work because of their existing knowledge and experience from prior Group engagements.

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 (being 15.5% of the audit fees) charged had any impact on its independence as statutory auditors. The Audit Committee was satisfied this was the case and so concluded that the auditors' independence from the Group was not compromised.

Audit Fees: The Audit Committee was satisfied that the level of audit fees payable in respect of the audit services provided (excluding audit-related services) (being £322,000 (2015: £287,000)) was appropriate and that an effective audit could be conducted for such a fee. The existing authority for the Audit Committee to determine the current remuneration of the external auditors is derived from the shareholder approval granted at the Company's annual general meeting in 2016. At the annual general meeting in 2016, all votes cast by shareholders were in favour of granting the Directors this authority.

External Audit Tender

As reported in last year's annual report, the Audit Committee decided to undertake a tender of the external auditor role in 2016. PwC has audited the Group's accounts since 2001 and the current audit engagement partner's five year term was due to end in mid-2017. A formal tender of the external audit contract had not been carried out since PwC was first engaged in 2001. Although the Board and the Audit Committee have remained satisfied with both PwC's quality of service and their independence and objectivity, the Audit Committee recommended to the Board that a competitive tender process take place in 2016, with the outcome to be put to shareholders for approval at the 2017 Annual General Meeting. The Audit Committee believed that this timing was in the best interests of the Company's shareholders as it coincided with the timing of the rotation of PwC's audit engagement partner under professional standards and because a tender had not been conducted since 2001.

The Audit Committee approved and oversaw the tender process, including agreeing the timetable and tender document, which were prepared in accordance with the relevant requirements. A description of the process undertaken during the audit tender is below.

Audit tender process – Timeline and key activities
Stage One
Audit Committee recommended the audit tender to the Board in April 2015, for the tender to take place in 2016.
The Audit Committee agreed the timetable for the tender, the tender document, the tender shortlist and the key decision criteria it would use in deciding to make a recommendation to the Board.
Stage Two
Ruth Anderson and Duncan Tatton-Brown met separately with the audit partner of each shortlisted firm in advance of issuing the invitation to tender for audit. This provided the ability to assess each audit partner from an experience and cultural fit perspective.
Four firms were invited to tender for the audit of Ocado. Each firm was sent a list of proposal requirements and evaluation criterion. The criteria included, but was not limited to, the auditor's application of technical knowledge, commercial insight and ability to deliver high quality audits. Each firm was invited to: • A tour of the CFC in Hatfield; • A meeting with management and finance team members; and • Access a secure data room with information to help them gain an understanding of Ocado as a business.
Each firm submitted an extensive written proposal to the Company in September 2016.
Stage Three
Each proposal was reviewed and a shortlist was agreed.
Three of the firms were invited to present to the Audit Committee.
Stage Four
Each firm presented to the Audit Committee in October 2016. It was an interactive session with questions and answers.
The Audit Committee met to evaluate each firm using the agreed key decision criteria and to reach its recommendation to the Board.
Stage Five
Board approved the recommendation of the Audit Committee. Feedback was provided to all four firms.

At the conclusion of the process, the Audit Committee (having consulted with management) recommended to the Board that Deloitte LLP be appointed as external auditors with effect for the 2017 financial year. The Audit Committee believed that both Deloitte LLP and one other firm, KPMG LLP, could be recommended, but had a reasoned preference for Deloitte LLP, based on the selection criteria as above.

Recommendation to Appoint: The Board accepted the Audit Committee's recommendation to appoint Deloitte LLP as external auditors and a resolution for the appointment of Deloitte LLP will be put to shareholders at the 2017 AGM. The Audit Committee confirms this recommendation is free from influence by a third party and that no contractual term has been imposed on the Company limiting the choice of auditor.

Transition to New Auditors: The Audit Committee has reviewed plans for the transition to the new auditors during 2017 and will receive regular reports on the transition at Audit Committee meetings.

Resignation of auditors: PwC will cease to hold office effective at the conclusion of the Annual General Meeting on 3 May 2017, having completed the audit of the Company's financial statements for the period.

Statement of Compliance with the Competition and Markets Authority (CMA) Order

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

19. Nomination Committee Report

Lord Rose
Nomination Committee Chairman

"This report outlines the work of the Nomination Committee in reviewing Board composition and overseeing the Director recruitment process."

Dear Shareholder,

I am pleased to present the report of the Nomination Committee for the financial year ended 27 November 2016.

During the year, the Nomination Committee has undertaken a number of activities, the results of which led to the Company's announcement on 18 November 2016 concerning some changes to the Board. We appointed Emma Lloyd, with effect from 1 December 2016 and announced the resignation of Robert Gorrie with effect from the 2017 Annual General Meeting on 3 May 2017. This follows the changes to the Board made earlier in 2016, with a view to refreshing the Board composition.

This report outlines the work of the Nomination Committee in reviewing Board composition and succession plans and overseeing the Director recruitment process.

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

Lord Rose
Nomination Committee Chairman
31 January 2017

Membership and Meetings

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

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

Lord Rose Chairman	Robert Gorrie	Jörn Rausing	Ruth Anderson	Douglas McCallum	Alex Mahon	Andrew Harrison	Emma Lloyd
Nomination Committee member since 11 March 2013	Nomination Committee member since 9 March 2010	Nomination Committee member since 9 March 2010	Nomination Committee member since 9 March 2010	Nomination Committee member since 3 October 2011	Nomination Committee member since 1 June 2012	Nomination Committee member since 1 March 2016	Nomination Committee member since 1 December 2016
Number of meetings: 2	**Number of meetings: 2**	**Number of meetings: 2**	**Number of meetings: 2**	**Number of meetings: 2**	**Number of meetings: 2**	**Number of meetings: 2**	**Number of meetings: 0**
Number attended: 2	Number attended: 2	Number attended: 2	Number attended: 2	Number attended: 2	Number attended: 2	Number attended: 2	Number attended: 0

Lord Rose became Chairman of the Nomination Committee when David Grigson stepped down from the role on his retirement from the Board, both with effect from the 2016 annual general meeting on 4 May 2016. The composition of the Nomination Committee changed during the period with the appointment of Andrew Harrison as Non-Executive Director with effect from 1 March 2016.

Emma Lloyd became a member of the Nomination Committee on her appointment to the Board as Non-Executive Director on 1 December 2016. Emma Lloyd did not attend any meetings as her appointment was after period end.

The biography of each member of the Nomination Committee is set out in the Board of Directors section on pages 48 and 49.

Other attendees at the Nomination Committee meetings include the Chief Executive Officer and the People Director. The Deputy Company Secretary is the secretary to the Nomination Committee.

Principal Activities of the Nomination Committee During 2016

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

As reported in the Company's previous annual report, the Nomination Committee had reviewed the Board's size and composition in 2015. The review of Board composition took into account various considerations including diversity, Director tenure, independence and mix of Board knowledge, skills and experience. The skills review formed part of the discussions of the Nomination Committee around the necessary skills and experience of future appointees to the Board.

This review was the precursor to the Board agreeing a number of changes to the Board in the past 12 months. The Company separately announced the appointment of Andrew Harrison as Non-Executive Director with effect from 1 March 2016 and the appointment of Emma Lloyd as Non-Executive Director with effect from 1 December 2016. During the year, the Company announced that David Grigson would retire with effect from the annual general meeting on 4 May 2016 and that Robert Gorrie will retire from the position of Non-Executive Director with effect from the AGM on 3 May 2017.

The Nomination Committee, led by the Chairman, carried out two separate recruitment processes to identify suitable candidates for both new appointments, with the support of Ridgeway Partners. Ridgeway Partners, an external and independent executive search consultant (without connections to the Company), was appointed to carry out recruitment searches, following a competitive tender process. Ridgeway Partners is an accredited firm under the Enhanced Voluntary Code of Conduct for Executive Search Firms.

Potential candidates were compiled by Ridgeway Partners based on agreed Non-Executive Director role descriptions. From this list, the Chairman compiled lists for interview. Initial interviews were conducted with the Chairman and following that, with the Chief Executive Officer and the Senior Independent Director. From this, a shortlist of candidates was compiled and these final candidates were interviewed by a number of the remaining Directors. The Nomination Committee made recommendations to the Board for the appointments. For information concerning remuneration arrangements for newly appointed Directors and retiring Directors, refer to the Directors' Remuneration Report.

As part of the Board changes, the Nomination Committee also recommended some changes to the composition of the Board committees, as outlined in the respective committee reports. The Nomination Committee recommended that Alex Mahon take up the role of Senior Independent Director with effect from 4 May 2016, upon David Grigson's retirement.

For further information on Board composition, diversity and independence, see the Statement of Corporate Governance on pages 52 and 53.

Annual Review: In addition to its annual performance evaluation, discussed in the Statement of Corporate Governance on page 54, 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.

20. Directors' Report

"The Directors' Report should be read in conjunction with the Strategic Report."

Introduction

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

Index of Directors' Report Disclosures

This Directors' Report should be read in conjunction with the Strategic Report (pages 6 to 43) which includes Corporate Responsibility (pages 38 to 41), and the Statement of Corporate Governance (defined in the index below as the "CG Statement") (pages 50 to 58), 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 (*).

The Strategic Report

The Directors are required under the Companies Act to prepare a strategic report for the Company and the Group. The Strategic Report contains the Directors' explanation of the basis on which the Group preserves and creates value over the longer term and the strategy for delivering the objectives of the Group. The Companies Act requires that the Strategic Report must:

- contain a fair review of the Group's business and contain a description of the principal risks and uncertainties facing the Group; and
- be a balanced and comprehensive analysis of the development and performance of the Group's business during the financial year and the position of the Group's business at the end of that year, consistent with the size and complexity of the business.

The information that fulfils the strategic report requirements is set out in the Strategic Report on pages 6 to 43.

The Company has chosen to include some of the information required to be disclosed in the Directors' Report within the Strategic Report (pages 6 to 43), 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 66.

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

The Strategic Report and the Directors' Report, together with the sections of this Annual Report incorporated by reference, have been drawn up and presented in accordance with and in reliance upon applicable English company law and the liabilities of the Directors in connection with that report shall be subject to the limitations and restrictions provided by such law.

For an explanation of how the Board satisfies itself that this Annual Report meets the disclosure requirements refer to the Statement of Corporate Governance on pages 50 to 58 and the Directors' responsibility statement on pages 72 and 73.

Amendment of the Articles

The Company's Articles, which govern a number of constitutional aspects of the Company's management, may be amended by a special resolution of its shareholders.

Appointment and Replacement of Directors

The appointment and replacement of Directors of the Company is governed by the Articles.

Appointment of Directors: A Director may be appointed by the Company by ordinary resolution of the shareholders or by the Board. The Board or any committee authorised by the Board may from time to time appoint one or more Directors to hold any employment or executive office for such period and on such terms as they may determine and may also revoke or terminate any such appointment. A Director appointed by the Board holds office only until the next annual general meeting of the Company and is then eligible for re-appointment.

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

Removal of Directors by Special Resolution: The Company may by special resolution remove any Director before the expiration of his period of office.

Vacation of Office: The office of a Director shall be vacated if: (i) he resigns; (ii) his resignation is requested by all of the other Directors (not less than three in number); (iii) he is or has been suffering from mental or physical ill health and the Board resolves that his office be vacated; (iv) he is absent without the permission of the Board from meetings of the Board (whether or not an alternate Director appointed by him attends) for six consecutive months and the Board resolves that his office is vacated; (v) he becomes bankrupt; (vi) he is prohibited by law from being a Director; (vii) he ceases to be a Director by virtue of the Companies Act; or (viii) he is removed from office pursuant to the Articles.

For a description of any changes of the Company's Directors during the period see the Statement of Corporate Governance on pages 50 to 58.

20. Directors' Report

Directors' Insurance and Indemnities

The Company maintains directors' and officers' liability insurance cover for its Directors and officers as permitted under the Articles and the Companies Act. Such insurance policies were renewed during the period and remain in force as at the date of this Annual Report. The Company also agrees to indemnify the Directors under an indemnity deed with each Director which contains provisions that are permitted by the director liability provisions of the Companies Act and the Articles. An indemnity deed is usually entered into by a Director at the time of his or her appointment to the Board.

Share Capital

The Company's authorised and issued ordinary share capital as at 27 November 2016 comprised a single class of ordinary shares. The shares have a nominal value of 2 pence each. The ISIN of the shares is GB00B3MBS747. The LEI of the Company is 213800LO8F61YB8MBC74.

As at 18 January 2017, being the last practicable date prior to publication of this report, the Company's issued share capital consisted of 629,270,054 issued ordinary shares, compared with 625,456,843 issued ordinary shares per the 2015 annual report. Details of movements in the Company's issued share capital can be found in Note 4.9 to the consolidated financial statements. During the period, shares in the Company were issued to satisfy options and awards under the Company's share and incentive schemes, as set out in Note 4.10 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, 32,830,613 (2015: 34,770,981) are held by Wealth Nominees Limited on behalf of Estera Trust (Jersey) Limited, the independent company which is the trustee of Ocado's employee benefit trust (the "EBT Trustee"). The EBT Trustee has waived its right to exercise its voting rights in respect of these 32,830,613 ordinary shares, although it may at the request of a participant vote in respect of 32,751,581 ordinary shares which have vested under the JSOS and remain in the trust at period end. The total of 32,830,613 ordinary shares held by the EBT Trustee are treated as treasury shares in the Group's Consolidated Balance Sheet in accordance with IAS 32 ''Financial Instruments: Presentation''. As such, calculations of earnings per share for Ocado exclude the 32,830,613 ordinary shares held by the EBT Trustee. Note 4.9 to the consolidated financial statements provides more information on the Group's accounting treatment of treasury shares.

Restrictions on Transfer of Securities

The Company's shares are freely transferable, save as set out below.

The transferor of a share is deemed to remain the holder until the transferee's name is entered in the register. The Board can decline to register any transfer of any share which is not a fully paid share. The Company does not currently have any partially paid shares. The Board may also decline to register a transfer of a certificated share unless the instrument of transfer: (A) is duly stamped or certified or otherwise shown to be exempt from stamp duty and is accompanied by the relevant share certificate; (B) is in respect of only one class of share; and (C) if to joint transferees, is in favour of not more than four such transferees. Registration of a transfer of an uncertificated share may be refused in the circumstances set out in the uncertificated securities rules (as defined in the Articles) and where, in the case of a transfer to joint holders, the number of joint holders to whom the uncertificated share is to be transferred exceeds four.

Restriction on Transfer of JSOS Interests: Participants' interests under the JSOS are generally non-transferable during the period beginning on acquisition of the interest and ending at the expiry of the relevant restricted period as set out in the JSOS rules. However, interests can be transferred to a spouse, civil partner or lineal descendant of a participant; a trust under which no person other than the participant or their spouse, civil partner or lineal descendant has a vested beneficial interest; or any other person approved by the EBT Trustee. If a participant purports to transfer, assign or charge his interest other than as set out above, the EBT Trustee may acquire the participant's interest for a total price of £1.

Other than as described above and on page 104 with respect to agreements concerning the Directors' shareholdings, the Company is not aware of any agreements existing at the end of the period between holders of securities that may result in restrictions on the transfer of securities or that may result in restrictions on voting rights.

Powers for the Company to Buy Back its Shares

The Company was authorised by shareholders on 4 May 2016, at the annual general meeting, to purchase in the market up to 10% of its issued ordinary shares (excluding any treasury shares), subject to certain conditions laid out in the authorising resolution. This standard authority is renewable annually; the Directors will seek to renew this authority at the AGM. The Directors did not exercise their authority to buy back any shares during the period.

Powers for the Company to Issue its Shares

The Directors were granted authority at the previous annual general meeting on 4 May 2016, to allot shares in the Company under two separate resolutions: (i) up to one-third of the Company's issued share capital; and (ii) up to two-thirds of the Company's issued share capital in connection with a rights issue. These authorities apply until the end of the AGM (or, if earlier, until the close of business on 3 August 2017). During the period, the Directors did not use their power to issue shares under the authorities, but did satisfy options and awards under the Company's option and incentive schemes.

The Directors were also granted authority at the previous annual general meeting on 4 May 2016 to disapply pre-emption rights. This resolution, which followed the Pre-emption Group's Statement of Principles (March 2015) on disapplying pre-emption rights (the "PEG Principles") applicable at that time, sought the authority to disapply pre-emption rights over 10% of the Company's issued ordinary share capital.

Given that shareholder support for these resolutions at the 2016 annual general meeting was not as high as the Company expected, the Company consulted those large shareholders who did not support the resolutions. Following such consultation, the Company will modify its approach for the 2017 AGM. A special resolution will be proposed at the 2017 AGM to renew the Directors' powers to disapply pre-emption rights. The new resolutions will seek the authority to disapply pre-emption rights on up to five per cent of the issued share capital. The Directors intend to follow the PEG Principles when considering the case for disapplying pre-emption rights. An authority will not be sought, however, to disapply pre-emption rights for an additional five per cent for transactions which the Board determines to be an acquisition or other capital investment, as allowed by the PEG Principles and the new template resolutions on disapplying pre-emption rights (released in May 2016 by the Pre-Emption Group). The Company will, consistent with the 2016 annual general meeting, continue to seek authority to allot shares up to two-thirds of the Company's issued share capital in connection with a rights issue only. The Company believes such approach is appropriate given that it follows guidance set by the Investment Association on the allotment of shares. The Directors have no present intention to exercise the authorities sought under either resolution, but the Directors wish to ensure that the Company has maximum flexibility in managing the Company's capital resources.

20. Directors' Report

Significant Shareholders

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

	Number of Ordinary Shares/Voting Rights	Percentage of Issued Share Capital	Nature of Holding
The London and Amsterdam Trust Company Limited	94,396,313	15.02	Direct/Indirect
Apple III Limited	69,015,602	10.97	Direct
The Capital Group Companies, Inc.	64,447,980	10.30	Indirect
Citigroup Global Markets Limited	59,159,037	9.41	Direct
Morgan Stanley (Institutional Securities Group and Global Wealth Management)	35,859,769	5.70	Direct
Norges Bank	34,502,508	5.48	Direct
Tremblant Capital LP	32,590,753	5.19	Indirect
Deutsche Bank AG	32,014,813	5.09	Direct
OppenheimerFunds, Inc.	31,860,520	5.07	Indirect
JPMorgan Chase & Co.	31,834,666	5.06	Indirect
The Goldman Sachs Group, Inc.	19,957,216	3.17	Indirect

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

No changes have been disclosed in accordance with Disclosure Guidance and Transparency Rule 5.1.2R in the period between 28 November 2016 and 18 January 2017 (being not more than one month prior to the date of the Notice of Meeting), except as set out in the table below:

	Number of Ordinary Shares/Voting Rights	Percentage of Issued Share Capital	Nature of Holding
Citigroup Global Markets Limited	55,835,966	8.87	Direct
Norges Bank	34,502,508	5.48	Direct
Deutsche Bank AG	33,053,616	5.25	Direct
Morgan Stanley (Institutional Securities Group and Global Wealth Management)	31,454,014	4.99	Direct
The Goldman Sachs Group, Inc.	19,009,292	3.02	Indirect

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

American Depositary Receipt Program

The Company has a sponsored level 1 American Depositary Receipt (ADR) program with The Bank of New York Mellon as depositary bank.

Each ADR represents two ordinary shares of the Company. The ADRs will trade on the over-the-counter (OTC) market in the United States. The CUSIP number for the ADRs is 674488101, the ISIN is US6744881011 and the symbol is OCDDY.

An ADR is a security that has been created to permit US investors to hold shares in non-US companies and, in a level 1 programme, to trade them on the OTC market in the United States. In contrast to underlying ordinary shares, ADRs permit US investors to trade securities denominated in US dollars in the US OTC market with US securities dealers. Were the Company to pay a dividend on its ordinary shares, ADR holders would receive dividend payments in respect of their ADRs in US dollars.

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, (2) a close member of a Director's family or (3) 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 awards granted to employees under such schemes to vest on a takeover; and (ii) certain members of senior management (not including the Directors) who were employed prior to 2010 are entitled to a payment contingent on a change of control of the Company or merger of the Company (irrespective of loss of employment) as set out in his or her respective employment contract. For further information on the change of control provisions in the Company's share schemes refer to the Directors' Remuneration Report on page 95.

Significant Agreements

There are a number of agreements to which the Group is a party that take effect, alter or terminate upon a change of control of the Company following a takeover bid. Details of the significant agreements are summarised below.

Morrisons Operating Agreement: The Group has a number of commercial arrangements with Morrisons. If certain competitors of Morrisons acquire more than 50% of the voting rights in the Company's shares or take control of the composition of the Company's Board, or acquire all or substantially all of the Group's business and undertakings, then Morrisons would be entitled to give notice to terminate the operating agreement by giving not less than four (but not more than four and a half) years' notice.

Following Morrisons giving such a notice, Morrisons would be entitled to procure equivalent services from third parties, the Company ceasing to be Morrisons' exclusive supplier of online grocery fulfilment services. Similarly, all restrictions on the UK retail grocers to whom the Company is entitled to provide certain services would fall away.

At the end of the four to four and a half years' notice period, the Company would be required to purchase Morrisons' shares in MHE JVCo Limited (the owner of the mechanical handling equipment in Dordon CFC).

Sourcing Agreement with Waitrose: The Company's primary operating subsidiary, Ocado Retail Limited ("ORL"), is party to the Sourcing Agreement with Waitrose and its parent company, John Lewis. If certain competitors of Waitrose or John Lewis acquire 50% or more of the shares or control of the Company's Board, then each of ORL, Waitrose and John Lewis may terminate the Sourcing Agreement. In these circumstances, ORL is obliged to pay Waitrose the lower of £40 million and 4% of the market capitalisation of the Company. This change of control provision will cease to bind the parties if, prior to the change of control, any party has already given a valid notice of termination.

Revolving Credit Facility Agreement: The Group has an unsecured £210 million revolving credit facility with Barclays Bank PLC, HSBC Bank plc, The Royal Bank of Scotland plc and Cooperative Rabobank UA 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.

20. Directors' Report

Research and Development Activities

The Group has dedicated in-house software, logistics and engineering design and development teams with primary focus on IT and improvements to the customer interfaces, the CFCs and the automation equipment used in them. Costs relating to the development of computer software are capitalised if it is probable that the future economic benefits that are attributable to the asset will accrue to the entity and the costs can be measured reliably. The Company is carrying out a number of IT and engineering design and build projects with the intention of developing new and improved automation equipment and processes for its warehouses. Further information is contained in the Strategic Report on pages 6 to 43.

Future Developments of the Business

The Group's likely future developments including its strategy are described in the Strategic Report on pages 6 to 43.

Employees with disabilities

Applications for employment by people with disability are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned and our ability to make reasonable adjustments to the role and the work environment. In the event of existing employees becoming disabled all reasonable effort is made to ensure that their employment within the Group continues. Training, career development and promotion of a disabled person is, as far as possible, identical to that of an able bodied person.

Profit and Dividends

The Group's results for the period are set out in the Consolidated Income Statement on page 125. The Group's profit before tax for the period amounted to £12.1 million (2015: £11.9 million).

The Directors do not propose to pay a dividend for the period (2015: £nil).

Post-Balance Sheet Events

There have been no material events after the balance sheet date of 27 November 2016 to the date of this Annual Report.

Independent Auditors

Following the Audit Committee's recommendation to the Board as a result of a tender process, the Board is proposing that shareholders approve the appointment of Deloitte LLP as the Company's independent auditors, effective from the end of the 2017 Annual General Meeting. Resolutions concerning the appointment of Deloitte LLP as auditors of the Company and to authorise the Directors to determine their remuneration will be proposed at the AGM and set out in the Notice of Meeting. Deloitte LLP have indicated their willingness to be appointed as the Company's auditors. For further information on the appointment of the auditors, refer to pages 62 to 63 of the Audit Committee Report.

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 48 and 49 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 (the "IFRSs") as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the result of the Company and the Group for that period. In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and 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 48 and 49 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 67) includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Forward-Looking Statements

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

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

Neill Abrams
Group General Counsel and
Company Secretary

Ocado Group plc
Registered in England and Wales
Number 07098618
31 January 2017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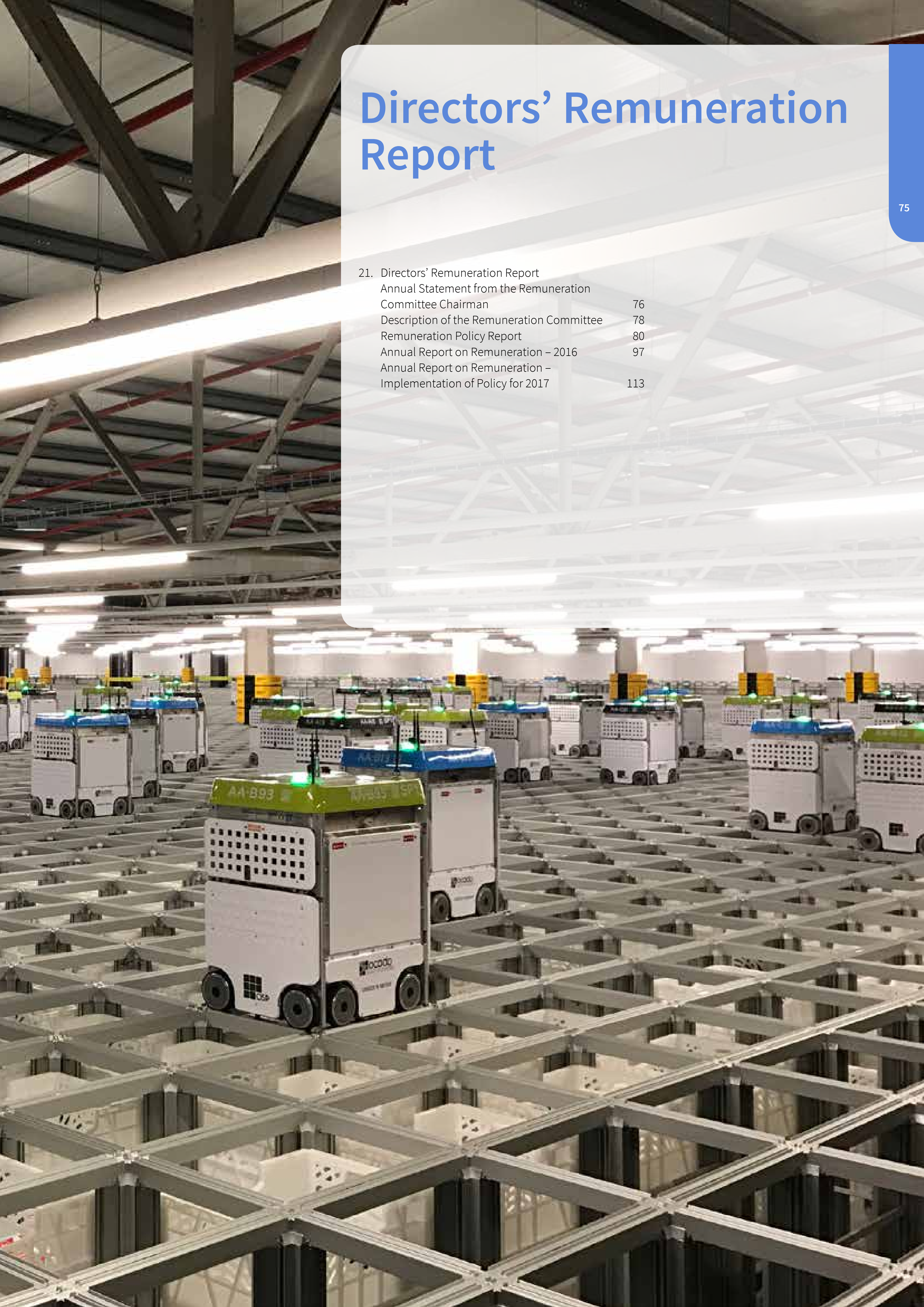
Directors' Remuneration Report



Douglas McCallum
Remuneration Committee Chairman

"We believe that the remuneration of the Executive Directors appropriately and fairly reflects the performance of the Group."

21. Directors' Remuneration Report

Annual Statement from the Remuneration Committee Chairman

Dear Shareholder,

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for 2016.

We believe that the remuneration of the Executive Directors appropriately reflects the performance of the Group. In 2016, the retail business continued to see strong growth despite a difficult retail environment. The Group's Revenue grew 14.8% to £1,271.0 million, average orders per week grew 17.9% to 230,000 and EBITDAⒶ grew 3.3% to £84.3 million for the financial year ended 27 November 2016. While the Group achieved strong sales and customer growth, it and the wider market suffered declining product prices, which impacted business Revenue and hence achievement against profitability targets under the incentive plans was modest.

Relationship Between Pay and Performance

We have recommended a bonus payment to the Executive Directors based on 43.7% to 44.1% achievement against objectives under the bonus plan for the period. This echoes the strong growth of the retail business.

During the period, we reviewed the performance against the 2014 LTIP award targets, which had a performance period ending on 27 November 2016. The 2014 LTIP awards were subject to the achievement of two equally weighted performance conditions, which were Group Revenue and earnings per share. Based on the 2016 results, the Directors achieved 42.76% against the performance targets. This was a result of an increase in the Group's EPS, excluding exceptional costs and share scheme awards, to 3.075 pence per share. The 2014 LTIP awards are expected to vest in March 2017.

Base salaries, which underpin retention of the Executive Directors, were reviewed during the period. An increase of 3% was approved, which is in line with the Group's employee salary percentage increase.

The Annual Report on Remuneration on pages 97 to 115 contains details of the remuneration paid to Executive Directors during the period.

Review of Directors' Remuneration Policy

One of the Remuneration Committee's key activities during 2016 was to undertake its periodic review of the Directors' remuneration policy, which is due for renewal in 2017. The Remuneration Committee are not proposing to make any substantive changes to the policy, and propose that the broad remuneration framework in terms of structure and the levels of incentive opportunities remains unchanged. However, in order to bring the Directors' remuneration policy further in line with best practice, a number of relatively minor changes are proposed. The policy changes, including the introduction of LTIP holding periods, are intended to further align it with best practice from a corporate governance perspective and with the expectations of many shareholders and representative investor bodies. A new Directors' remuneration policy will be put to all shareholders for approval at our Annual General Meeting on 3 May 2017. The Remuneration Policy Report on pages 80 to 96 contains details of the new Directors' Remuneration Policy that we propose to apply from the date of the AGM.

Key Changes to Executive Director Remuneration

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

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

During the financial year, we undertook a review of the Executive Director AIP structure and concluded that the financial measures of EBITDAⒶ and Gross Sales (Retail)Ⓐ remained aligned with the Company's strategy and should be retained for 2017 in order to encourage continued strong retail business growth. The proportion allotted to individual objectives has been maintained at 30%, to reflect the importance of delivering key strategic objectives in 2017, including new technology and CFCs.

A See Alternative Performance Measures on page 194

The financial performance measures for the 2017 LTIP awards remain aligned with previous years' awards. One of the targets for the platform business will, unlike previous years' awards, be focused on expanding the Ocado Smart Platform business rather than the cost efficiency of the platform solution. This reflects the Board's focus on rewarding the delivery of both a broader platform solution that includes store pick fulfilment and sales of the platform solution to new customers, while continuing to incentivise improvements in operational efficiency.

Changes to Non-Executive Director Remuneration

The Non-Executive Directors' annual fees were subject to annual review and the basic fees for Non-Executive Directors were increased to £50,000 per annum (2015: £48,000). Fee levels have not changed since April 2014.

Shareholder Feedback and Remuneration Disclosure

In preparing the new Directors' Remuneration Policy, we sought feedback from shareholders on the main changes proposed. No concerns were raised by shareholders. Each year, we review how shareholders voted on the remuneration report, together with any feedback received. We are aware of shareholders' concerns regarding transparency of performance-related remuneration. To enhance our reporting of performance we included actual performance targets for incentive schemes for the first time in last year's report. We have included this information again this year and hope that it provides shareholders with clear and understandable information about the operation of our performance-related incentive schemes. Shareholder support for the resolution on the Directors' Remuneration Report has seen meaningful improvement in recent years, with 91.48% support at the 2016 annual general meeting.

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

Douglas McCallum
Remuneration Committee Chairman
31 January 2017

21. Directors' Remuneration Report

Description of the Remuneration Committee

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

Membership

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

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

Douglas McCallum Chairman	Ruth Anderson	Andrew Harrison
Remuneration Committee member since 3 October 2011	Remuneration Committee member since 9 March 2010	Remuneration Committee member since 1 March 2016
Number of meetings: 4	**Number of meetings: 4**	**Number of meetings: 2**
Number attended: 4	Number attended: 4	Number attended: 2

The biography of each member of the Remuneration Committee is set out in the Board of Directors section on pages 48 and 49.

Other attendees at the Remuneration Committee meetings included the Chairman of the Board, the Chief Executive Officer, the Chief Financial Officer, the People Director and the external adviser to the Remuneration Committee, Deloitte LLP. The Chairman and the Executive Directors and other attendees are not involved in any decisions of the Remuneration Committee and are not present at any discussions regarding their own remuneration. The Deputy Company Secretary is secretary to the Remuneration Committee.

During the year, the Remuneration Committee composition changed as a result of the retirement of David Grigson and the subsequent appointment of Non-Executive Director Andrew Harrison, effective from 1 March 2016. David Grigson attended three meetings during the period, out of a possible three meetings, before his retirement from the Remuneration Committee on 4 May 2016.

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 assisting in a benchmarking review of Executive Director remuneration.	Separate teams engaged by the Company to advise on a range of Company tax, share schemes and accounting matters, including transaction advice. See also on page 79 regarding the auditor tender process.
Slaughter and May	Company	None	Share schemes, tax and employment law advice as well as general UK legal advice in respect of a number of the Company's remuneration matters, including vesting of the LTIP and the Chairman's Share Matching Award and changes to the LTIP and GIP rules.

Deloitte LLP Re-appointment Review and Tender Process

The Remuneration Committee considered the re-appointment of Deloitte LLP. This review took into account Deloitte's effectiveness, independence, period of appointment and fees. Deloitte LLP were appointed by the Remuneration Committee in 2012 following a tender process led by the then Remuneration Committee Chairman.

The Remuneration Committee reviewed the performance of Deloitte LLP based on feedback from members of the Remuneration Committee and management. The criteria for assessing their effectiveness included their understanding of business issues and risks, their knowledge and expertise and their ability to manage expectations. The Remuneration Committee concluded that the performance of Deloitte LLP remained effective.

The Remuneration Committee considered the independence and objectivity of Deloitte LLP. Deloitte LLP have provided assurances to the Remuneration Committee that they have effective internal processes in place to ensure that they are able to provide remuneration consultancy services independently and objectively. 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, £25,000 in advisory fees were paid or payable to Deloitte LLP for services provided to the Remuneration Committee.

Following the review by the Remuneration Committee, it was agreed that Deloitte LLP should be re-appointed.

Subsequently, the Remuneration Committee noted the proposed appointment of Deloitte LLP as external auditors of the Company from the 2017 Annual General Meeting (for further information see pages 62 and 63). Deloitte would not continue as adviser to the Remuneration Committee from then and accordingly the Remuneration Committee agreed to tender the role. The Remuneration Committee agreed a tender process, which is expected to conclude in April 2017.

Other Support for the Remuneration Committee

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

Principal Activities of the Remuneration Committee During the Financial Year

The Remuneration Committee has, under its terms of reference, been delegated responsibility for setting remuneration for all of the Executive Directors, the Chairman and the Company Secretary. This is outlined on page 50. In line with its terms of reference, the Remuneration Committee's work during the period included the following:

- approving the 2015 Directors' Remuneration Report;
- reviewing performance under the 2015 AIP and consideration of any bonuses payable;
- approving the 2016 AIP performance targets;
- approving the 2016 LTIP awards and performance targets;
- reviewing performance against LTIP awards;
- receiving executive remuneration advice from Deloitte LLP in respect of a range of matters considered by the Remuneration Committee during the year;
- receiving a report on Group-wide and management remuneration for 2016;
- consulting the Chief Executive Officer and the Chairman on performance and remuneration of the Executive Directors;
- receiving reports from Deloitte on senior executive pay, market themes and trends;
- receiving a report on the Group's share schemes and plans for 2017;
- receiving a report on shareholder feedback on the 2015 annual report and 2016 annual general meeting;
- approving a new invitation under the Sharesave scheme for 2017;
- approving amendments to the LTIP rules to allow for holding periods;
- reviewing the Remuneration Committee's performance and terms of reference;
- reviewing the performance of Deloitte LLP; and
- agreeing a process and timetable for a tender of the role of external remuneration consultants.

21. Directors' Remuneration Report

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

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

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

Remuneration Policy Report

Introduction

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

Shareholders will be asked to approve the new Directors' Remuneration Policy at the AGM on 3 May 2017 and it will, if approved, apply to payments made from this date. Until that time the 2014 Policy will continue to apply. The new 2017 Policy is intended to apply for a period of three years from the AGM.

A copy of the 2014 Policy can be found in the Company's 2015 annual report on www.ocadogroup.com.

Proposed Policy for Director Remuneration

During the period, the Remuneration Committee carried out a thorough review of the current remuneration policy for Executive Directors. The Remuneration Committee concluded that there were few parts of the existing remuneration policy that required change and it adhered to the remuneration principles (outlined below) and that it remained relevant and appropriate in incentivising management to achieve the Group's strategic objectives. However, in order to bring the Directors' remuneration policy further in line with governance best practice and with the expectations of shareholders and representative investor bodies, two main changes are proposed. The proposed changes are set out in the table below, together with an explanation for such proposed changes.

Element of remuneration/policy	Proposed 2017 Policy	2014 Policy
LTIP holding period	Introduction of an additional holding period of two years (or longer if the Remuneration Committee determines) from the third anniversary of the date of grant. This change helps increase alignment between the interests of executives and long-term shareholders and further balance the shorter-term focus of the annual bonus.	No additional holding period after completion of three-year performance period.
Shareholding requirement	Introduction of an increased level of expected shareholding to 200% of base salary for all Executive Directors. Change to allow the minimum shareholding to be met over five years from the date of Director appointment.	Minimum holding of 150% of base salary for the Chief Executive Officer and 100% for other Executive Directors. The holding can be built up over three years from appointment.

Taken together, the Remuneration Committee believe that these changes help to increase alignment between the Group's management and its shareholders. The 2017 Policy continues to support the long-term success of the business and ensure that the Group's management are driving sustainable shareholder value in the long-term.

No changes are proposed for the remuneration policy for the Chairman and the Non-Executive Directors.

Remuneration Principles for Senior Executives

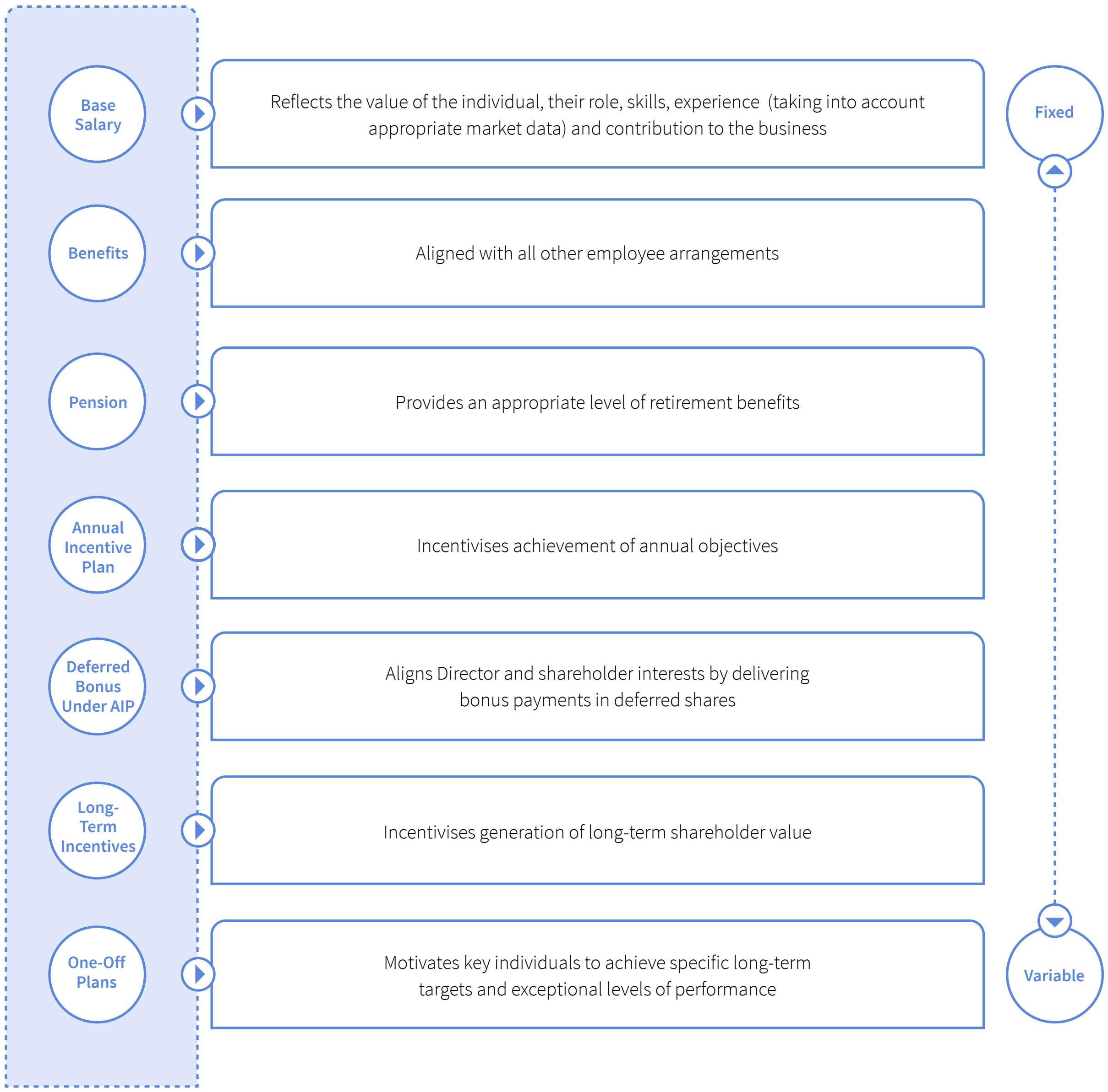
The Directors' Remuneration Policy is underpinned by the following remuneration principles:

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

Link with Strategy

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

The Directors' Remuneration Policy, outlined on the following pages, provides the detailed structure of each element of remuneration and how each element is determined. The remuneration package of the Executive Directors is made up of elements of fixed and variable remuneration. The Remuneration Committee is mindful of the weighting of fixed and variable pay and balance of short- and long-term awards, and sought to position a larger proportion of the remuneration package as equity-based and performance related in order to support the Company's strategic objectives of high growth and expansion and to create shareholder alignment. The balance of the remuneration of the Executive Directors is set out at "Illustration of Directors' Remuneration Policy" on pages 95 and 96. The holding period in the LTIP, the share deferral provision in the AIP, the minimum shareholding requirements and the GIP's five-year performance period all help ensure a longer-term focus for the business from the Executive Directors.



A See Alternative Performance Measures on page 194

21. Directors' Remuneration Report

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, holding periods or payment	Y	Y	N	Y
Discretion required when dealing with a change of control or restructuring of the Group	Y	Y	Y	Y
Determination of the treatment of leavers based on the rules of the plan and the appropriate treatment chosen	Y	Y	Y	Y
Adjustments required in certain circumstances (for example, rights issues, corporate restructuring events and dividends)	Y	Y	Y	Y
Adjust or change the performance conditions if anything happens which causes the Remuneration Committee reasonably to consider it appropriate (for example, Board approved strategic initiative or transaction) provided that any changed performance condition will be equally difficult to satisfy as the original condition would have been had such circumstances not arisen	Y	Y	N	Y
The annual review of performance measures and weighting, and targets from year to year	Y	Y	Y	N
Adjustment to level of payments or formulaic scheme outcomes both upwards and downwards including to ensure the scheme outcomes reflect individual or Company performance over the performance period, or to take account of unforeseen circumstances outside the Company's control[1]	Y	Y	N	N
Application of malus and clawback	Y	Y	N	Y

1. Under the 2014 Policy the Remuneration Committee did not have explicit discretion to make payment adjustments under the LTIP in such circumstances. Allowing the Remuneration Committee such discretion will help it ensure that the payments under the LTIP reflect actual Group performance if this is different from the formulaic outcomes from LTIP performance measures.

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

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

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

Development of Directors' Remuneration Policy

Shareholder Context

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

Employee Context

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

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

The Directors' Remuneration Policy is designed in line with the remuneration principles outlined on page 80, which reflect the remuneration principles for the Group. A key remuneration principle for the Group is that share awards be used to recognise and reward good performance and attract and retain employees. This is reflected by the issue of awards of free shares and options to all employees under the SIP and the ESOS schemes, which allows all employees an opportunity to share in the Group's success via share ownership.

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

Remuneration Policy Table: Elements of Director Remuneration The following table sets out the key elements of remuneration for the Executive Directors, their purposes and links to strategy, the maximum opportunity and any performance conditions. In addition, where relevant, the changes proposed to the policy for each element of remuneration and the rationale behind these changes.

Purpose and Link to Strategy	How it Operates	Performance Conditions	Maximum Opportunity	Recovery or Withholding
Fixed pay				
Base pay To attract and retain the right calibre of senior executive required to support the long-term interests of the business.	Paid monthly in cash. Reviewed annually by the Remuneration Committee, with any changes normally becoming effective in April each year (or may be reviewed ad hoc where there is a significant change of responsibilities). 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. Normally, maximum salary increases for Executive Directors will be within the normal percentage range and guidelines that are applied to the UK-based monthly paid employees of the Company in that year. 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 increases may also be considered appropriate and necessary to bring a recently appointed executive in line with the market and the other executives in the Company where their salary at appointment has been positioned below the market.	No contractual provisions for clawback or malus.
Change from 2014 Policy and rationale No substantive changes from the 2014 Policy.				

21. Directors' Remuneration Report

Purpose and Link to Strategy	How it Operates	Performance Conditions	Maximum Opportunity	Recovery or Withholding
Benefits To attract and retain the right calibre of senior executive required to support the long-term interests of the business.	The Company provides a range of benefits which are aligned with those provided to monthly paid employees under the Company's flexible benefits policy. These may include: private medical insurance and health assessments, life assurance, travel insurance, income protection, travel allowance, free parking, access to financial and legal advice, staff product discount, subsidised staff restaurants and other discounts. Any business travel costs will be paid by the Company. Additional benefits or payments in lieu of benefits may also be provided in certain circumstances, if required for business needs. Any benefits allowances will be paid in cash monthly and will not form part of pensionable salary. The Company provides Directors' and Officers' Liability Insurance and may provide an indemnity to the fullest extent permitted by the Companies Act.	Not performance linked.	Benefits for Executive Directors are set at a level which the Remuneration Committee considers to be appropriate against market data for comparable roles for companies of equivalent size and complexity in similar sectors and geographical locations to the Company. The maximum value of the Directors' and Officers' Liability Insurance and the Company's indemnity is the cost at the relevant time.	No contractual provisions for clawback or malus.
Change from 2014 Policy and rationale Some minor changes from the 2014 Policy to reflect the Company's current flexible benefits policy.				
Pension To 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, the balance of employer contributions may be paid as a cash allowance or into a personal pension arrangement. These amounts will not be treated as salary for the purposes of incentive awards. 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 pension scheme for the Executive Directors will normally be in line with the other scheme participants; however, the Remuneration Committee may exceed this standard maximum in order to be market competitive and attract and retain the right calibre of senior executive talent needed to support the long-term interests of the business. Pension contributions for UK based Executive Directors will not exceed 30% of annual 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.
Change from 2014 Policy and rationale No substantive changes from the 2014 Policy.				

Purpose and Link to Strategy	How it Operates	Performance Conditions	Maximum Opportunity	Recovery or Withholding
Variable Pay: Short-Term Incentives				
Annual Incentive Plan ("AIP") To provide a direct link between measurable and predictable annual Company and/or role specific performance and reward. To 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 financial targets and individual objectives with the majority being financial. For threshold performance no more than 25% of the maximum opportunity will be earned. For stretch performance, the maximum opportunity will be earned. The performance conditions for the relevant financial year are described in the Annual Report on Remuneration.	The maximum bonus is 200% of base salary. The maximum bonus payable for the relevant financial year is described in the Annual Report on Remuneration.	Clawback may apply for three years (or longer if the Remuneration Committee determines) from date of payment of a bonus or grant of a deferred award, in certain exceptional circumstances. See page 93 for further details.
Change from 2014 Policy and rationale A minor change from the 2014 Policy to recognise that the payout range between the threshold and the maximum opportunity may not necessarily be calculated on a straight-line basis. The 2014 Policy provided that a straight-line sliding scale applied between the threshold and the maximum.				

21. Directors' Remuneration Report

Purpose and Link to Strategy	How it Operates	Performance Conditions	Maximum Opportunity	Recovery or Withholding
Variable Pay: Long-Term Incentives				
Long Term Incentive Plan ("LTIP") To attract, retain and incentivise senior executives over the longer-term. To align the interests of the senior executives and the shareholders.	An award over a fixed number of shares is granted annually. Awards made in the form of nil-cost options or conditional share awards will ordinarily vest three years from award, subject to continued service and the achievement of performance conditions and other conditions. Dividend equivalents may be paid in cash or additional shares on LTIP awards that vest. Awards made after 3 May 2017 are subject to an additional holding period of two years (or longer if the Remuneration Committee determines) from the third anniversary of the date of grant. LTIP awards are only acquired by an Executive Director once the total period of five years from the date of grant has elapsed. The holding period usually applies regardless of whether or not the Executive Director remains an employee of the Group.	The Remuneration Committee sets targets that are closely aligned to the delivery of the Group's strategic objectives for the performance period. These will be a mix of financial targets and individual objectives with the majority being financial. For threshold performance, no more than 25% of the maximum opportunity will vest. For stretch performance, the maximum opportunity will vest. The measurement period for performance conditions will ordinarily comprise at least three financial years of the Company. The performance conditions for the relevant award are described in the Annual Report on Remuneration.	The Remuneration Committee may grant awards, with a maximum total market value of 150% of annual base salary of a participant. In the case of the Chief Executive Officer, the maximum total market value of an award is 200% of annual base salary. In exceptional circumstances, the Remuneration Committee may grant awards with a maximum total market value of 300% of annual base salary of a participant or, in the case of the Chief Executive Officer, 400% of annual base salary.	Clawback and malus provisions may be applied to LTIP awards in certain exceptional circumstances. The clawback period will be two years (or longer, if the Remuneration Committee determines) from the end of the holding period or the date the awards are acquired. See page 93 for further details.

Change from 2014 Policy and rationale

A change from the 2014 Policy to introduce a holding period of two years from the third anniversary of the date of grant. This change helps increase alignment between the interests of the Executive Directors and shareholders and further balance the shorter-term focus of the annual bonus. Under the 2014 Policy there was no holding period after completion of the three-year performance period.

A minor change from the 2014 Policy to recognise that the payout range between the threshold and the maximum opportunity may not necessarily be calculated on a straight-line basis. The 2014 Policy provided that a straight-line sliding scale applied between the threshold and the maximum.

Purpose and Link to Strategy	How it Operates	Performance Conditions	Maximum Opportunity	Recovery or Withholding
Variable Pay: One-off Long-Term Incentives				
Growth Incentive Plan ("GIP") To attract, retain and incentivise senior executives. To align the interests of senior executives and shareholders, by incentivising senior executives to deliver exceptional levels of growth and return to the shareholder over the long-term.	A one-off award of options over shares in the Company with a nil exercise price. The Chief Executive Officer, the Chief Financial Officer and the Chief Operations Officer received an award. New Executive Directors and other senior employees may be invited to participate at a level dependent on the point during the performance period at which they were appointed. The Executive Directors must hold a level of shares throughout the performance period. For the Chief Executive Officer, this shareholding must be at least one times salary and for other Executive Directors, this shareholding must be at least half times salary.	Awards are subject to a single performance condition to be satisfied over the five years from the date of grant. The share price of the Company is the sole performance measure and its growth will be assessed relative to the growth of the FTSE 100 Share Index over that period. 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 is growth in the FTSE 100 Share Index plus: • not more than 5% p.a.: 0% of the award vests. • 5% p.a.: 25% of the award vests. • 10% p.a.: 50% of the award vests. • 15% p.a.: 75% of the award vests. • 20% p.a.: 100% of the award vests.	Four million shares for the Chief Executive Officer and one million shares for each of the Chief Financial Officer and the Chief Operations Officer. Awards to new participating Executive Directors or other senior employees will not exceed the awards of existing participants.	Clawback and malus provisions may be applied to GIP awards in certain exceptional circumstances. The clawback period will be two years (or longer if the Remuneration Committee determines) from the date of vesting. See page 93 for further details.
Change from 2014 Policy and rationale No change from the 2014 Policy.				

21. Directors' Remuneration Report

Purpose and Link to Strategy	How it Operates	Performance Conditions	Maximum Opportunity	Recovery or Withholding
Joint Share Ownership Scheme ("JSOS") To attract, retain and incentivise senior executives. To align the interests of the senior executives and the shareholders, by driving share price growth over four years.	A one-off arrangement established prior to the Company's listing on the London Stock Exchange in 2010. The participants and Estera Trust (Jersey) Limited, the EBT Trustee, acquired separate beneficial interests in ordinary shares of the Company. The participant may lose his interest in the shares.	Interests in shares vested annually over a four-year period. The participant benefits from the increase in value of the shares interests above a predetermined market price for each tranche (the "hurdle price"). Awards under the JSOS will have no value unless the hurdle price is achieved. Interests in the Company's shares were granted in tranches, with a different hurdle price for each tranche. See page 105 for further details.	The JSOS rules contain limits which constrain the number of interests that may be issued under the JSOS. No future awards will be made to the Executive Directors under the JSOS.	Certain leaver provisions allow the Company to recover share interests in certain circumstances. See page 94 for further details.
Change from 2014 Policy and rationale No change from the 2014 Policy.				
All-Employee Share Plans				
Sharesave To provide all employees, including Executive Directors, the opportunity to voluntarily invest in Company shares and be aligned with the interests of shareholders.	All employees are eligible to participate in this all employee tax advantaged share scheme. The Company grants options over shares in the Company to employees, including the Executive Directors. To obtain an option an eligible individual must agree to save a fixed monthly amount for three or five years up to the maximum monthly amount under HMRC limits. The amount saved will determine the number of shares over which the option is granted. Options may be exercised in a six month period at the maturity of a three or five year savings period, subject to continued service.	Not performance linked.	Options are usually granted at a discount to the market price at the time of grant up to the maximum discount under HMRC limits. Employees are limited to saving a maximum amount under HMRC limits.	The scheme rules do not provide for malus or clawback provisions.
Change from 2014 Policy and rationale No change from the 2014 Policy.				

Purpose and Link to Strategy	How it Operates	Performance Conditions	Maximum Opportunity	Recovery or Withholding
Share Incentive Plan ("SIP") To provide all employees, including Executive Directors, the opportunity to receive and invest in Company shares and be aligned with the interests of shareholders.	All employees are eligible to participate in this all employee tax advantaged share scheme. The SIP allows: • 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 and purchases are kept in line with HMRC limits.	The scheme rules do not provide for malus or clawback provisions.
Change from 2014 Policy and rationale No change from the 2014 Policy.				
2014 Executive Share Option Scheme ("2014 ESOS") To provide all employees, including Executive Directors, the opportunity to receive Company share options and be aligned with the interests of shareholders.	All employees are eligible to participate in this all employee tax advantaged share scheme and the unapproved part of the scheme. The Company grants options over shares in the Company to employees. Options over shares vest on the third anniversary of grant, subject to continued service and satisfaction of any performance conditions. If vested, the options may be exercised at any time between the third and tenth anniversaries of grant at the executive's discretion.	If awards are made to the Executive Directors, the Remuneration Committee may set targets. The Remuneration Committee sets targets that are closely aligned to the delivery of the Group's strategic objectives for the performance period. These may be a mix of strategic and financial targets with the majority being financial. For threshold performance no more than 25% of the maximum opportunity would be earned. For stretch performance, the maximum opportunity will vest. The measurement period for performance conditions will ordinarily comprise at least three financial years of the Company.	There are currently no plans to make awards to the existing Executive Directors under this scheme. Maximum opportunity for awards will be in line with HMRC limits for the tax advantaged part of the scheme. Maximum opportunity for awards under the unapproved part of the scheme is 300% of annual base salary, except in exceptional circumstances.	The scheme rules do not provide for malus or clawback provisions.
Change from 2014 Policy and rationale No change from the 2014 Policy.				

21. Directors' Remuneration Report

Purpose and Link to Strategy	How it Operates	Performance Conditions	Maximum Opportunity	Recovery or Withholding
Executive Share Option Scheme ("ESOS") To provide all employees, including Executive Directors, the opportunity to receive Company share options and be aligned with the interests of shareholders.	Options issued prior to May 2014 were issued under the ESOS. Employees and two Executive Directors retain options under the ESOS. From May 2014 new option awards are made under the 2014 ESOS. The terms of the ESOS largely mirror those of the 2014 ESOS.	See 2014 ESOS.	There are currently no plans to make awards to any employees or the Executive Directors under this scheme. See 2014 ESOS.	See 2014 ESOS.
Change from 2014 Policy and rationale No change from the 2014 Policy.				

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

Purpose and Link to Strategy	How it Operates	Performance Conditions	Maximum Opportunity	Recovery or Withholding
Chairman Fee To attract and retain an individual with the appropriate degree of expertise and experience	The fee is paid monthly in cash. Reviewed annually by the Remuneration Committee, with any changes normally becoming effective in April each year. The review takes into account a number of factors including: the Group's annual review process, business performance and appropriate market data for comparable roles for companies of equivalent size and complexity in similar sectors and geographical locations to the Company.	Not performance linked.	The maximum aggregate amount of basic fees payable to all Directors shall not exceed the £1 million limit set in the Company's Articles of Association. Normally, any increases will be within the normal percentage range and guidelines that are applied to the UK-based monthly paid employees of the Company in that year.	No contractual provisions for clawback or malus.
Non-Executive Director Fee To attract and retain expert people with the appropriate degree of expertise and experience	The fee is paid monthly in cash. Fee structure includes an annual base fee for a Non-Executive Director and may include additional fees for being the Senior Independent Director or a Board committee chair. Reviewed annually by the Executive Directors and the Chairman, with any changes normally becoming effective in April each year. The review takes into account a number of factors including: the Group's annual review process, business performance and appropriate market data for comparable roles for companies of equivalent size and complexity in similar sectors and geographical locations to the Company.	Not performance linked.	The maximum aggregate amount of basic fees payable to all Directors shall not exceed the £1 million limit set in the Company's Articles of Association. Normally, any increases will be within the normal percentage range and guidelines that are applied to the UK-based monthly paid employees of the Company in that year.	No contractual provisions for clawback or malus.

Purpose and Link to Strategy	How it Operates	Performance Conditions	Maximum Opportunity	Recovery or Withholding
Travel and expenses To support the Directors in the fulfilment of their duties.	The Company may reimburse expenses and travel costs reasonably incurred by the Chairman and the Non-Executive Directors in fulfilment of the Company's business, together with any taxes thereon.	Not performance linked.	The maximum reimbursement is expenses reasonably incurred, together with any taxes thereon.	No contractual provisions for clawback or malus.
Other arrangements	The Chairman and the Non-Executive Directors are not usually eligible for annual bonus, share incentive schemes, pensions or other benefits with the exception of the staff product discount and free delivery offered to all employees. The Company provides the Chairman and the Non-Executive Directors with Directors' and Officers' Liability Insurance and may provide an indemnity to the fullest extent permitted by the Companies Act.	Not applicable.	The maximum staff product discount is that offered to any Group employees. The maximum value of the Directors' and Officers' Liability Insurance and the Company's indemnity is the cost at the relevant time.	Not applicable.

Change from 2014 Policy and rationale

No changes are proposed for the policy for the Chairman and the Non-Executive Directors, except that the Chairman's Share Matching Award (provided for under the 2014 Policy) that vested on 10 May 2016, will not carry forward under the 2017 Policy, since it was a one-off award made on Lord Rose's appointment as Chairman to the Board in 2013.

Notes to the Policy Tables:

1. No other items in the nature of remuneration are provided by the Company to its Non-Executive Directors, save for the amounts paid to Robert Gorrie as described on page 53.
2. Other than as described in the policy table, there are no components of the Executive Directors' remuneration that are not subject to performance measures. In the case of the Sharesave and SIP, these tax advantaged all-employee schemes are subject to rules constrained by legislation and so awards are made on the same terms (not comprising performance conditions) to all employees including Executive Directors. Prior to the Company's listing in 2010, some option awards were made to the Executive Directors under the ESOS without performance conditions. Options were awarded under the ESOS to Duncan Tatton-Brown on his appointment to the Board. Although awards will not usually be made to existing Executive Directors, the rules of the ESOS and 2014 ESOS allow the Remuneration Committee to impose performance conditions on any awards made to a Director under each plan. Performance targets apply to the AIP, LTIP and GIP.
   a. AIP – the Remuneration Committee adjusts the design (including measures and weightings) of the AIP each year to incentivise the delivery of key business objectives and individual performance for that financial year. Management proposes suitable metrics and levels of performance to form the threshold and stretch levels of performance. Any individual objectives applicable for the AIP are linked to the Executive Director's role and/or his business area(s) and are in line with the Group's strategy. The measurable objectives are agreed between the Executive Director and the Chief Executive Officer (or in the case of the Chief Executive Officer, between him and the Chairman). The Remuneration Committee reviews the proposed targets to assess whether they are appropriately aligned with the strategy and shareholders' interests and whether the reward that would accrue to the Executive Director is appropriate in the circumstances. Usually, full vesting will only occur where exceptional performance levels have been achieved and significant shareholder value created. Details of the AIP performance measures are outlined in the Annual Report on Remuneration.
   b. LTIP – the Remuneration Committee reviews the design of the LTIP each year to ensure that the performance conditions remain relevant to the Company's key strategic objectives over the performance period. The Remuneration Committee reviews the performance measures in light of the long-term strategic plan and agrees the threshold and stretch conditions that must be achieved. Full vesting will only occur where exceptional performance levels have been achieved and significant shareholder value created. Details of the LTIP performance measures are outlined in the Annual report on remuneration.
   c. GIP – the GIP performance measure was designed to incentivise outstanding growth in value of the Group over the five-year performance period. The performance measure requires the growth in the Company share price to be significantly more than the growth of the FTSE 100 Share Index over that period. This helps to ensure alignment with shareholders, as full vesting will only occur where outstanding shareholder value is created.
3. The Directors' Remuneration Policy contains formal components for short and long-term incentives with performance conditions attached. While the Group has a policy of remunerating its employees through share scheme participation, it does not have formal remuneration arrangements for all employees akin to all of the components of Directors' remuneration. In the case of the Management Committee, they participate in an annual bonus plan and the long-term incentive schemes, including the LTIP and the JSOS, with award levels set at lower percentages of salary than those of the Directors. The performance conditions and most other terms of these schemes are the same as for the Executive Directors. The bonus plan for senior management does not include provision for share deferral of a payment. The LTIP awards from 2017 for senior management do not include holding periods. In the case of some small groups of senior employees, the Group operates some tailored bonus and long-term incentive arrangements (such as the JSOS, cash-based long-term incentive scheme and management incentive plan). Aside from these targeted arrangements (and the SIP, the ESOS and the Sharesave), the variable remuneration of employees is not closely aligned with that of Directors.

21. Directors' Remuneration Report

Director Minimum Shareholding Expectation

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

Director	Shareholding Expectation
Executive Directors	Executive Directors are expected to hold shares equivalent to 200% of base salary. This holding can be built up over five years from appointment. Share awards may count if vesting is not subject to any further performance conditions or other conditions such as continued employment. The net value of share interests and share awards which are vested, but remain subject to a holding period and/or clawback, may count towards the shareholding requirement. 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.
Chairman	The Chairman is expected to hold shares equivalent to one year's annual fee. This holding can be built up over three years from appointment.
Non-Executive Directors	Non-Executive Directors are expected to hold shares equivalent to one year's annual fee. This holding can be built up over three years from appointment.
Change from 2014 Policy and rationale	
A change from the 2014 Policy to introduce a higher level of minimum shareholding to 200% of annual base salary for Executive Directors. Under the 2014 Policy the minimum shareholding was 150% of annual base salary for the Chief Executive Officer and 100% for other Executive Directors. Executive Directors have five years from appointment to meet the minimum shareholding expectation (compared with three years under the 2014 Policy).	

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

Approach to Remuneration of Directors on Recruitment

Recruitment of Executive Directors

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

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

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

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

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

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

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

Recruitment of Non-Executive Directors

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

Loss of Service or Termination Policy

Service Contracts for Executive Directors

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

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

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

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

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

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

Letters of Appointment for Non-Executive Directors

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

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

Payments on Cessation of Employment for Executive Directors

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

The treatment of outstanding share awards is governed by the relevant scheme rules, all of which have been approved by shareholders. The table on page 96 provides a summary of these leaver provisions. The Remuneration Committee generally has discretion to determine the treatment of a leaver, but will be conscious of the remuneration principle that it should not reward poor performance or behaviour.

Payments on Cessation of Service for Non-Executive Directors

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

Malus and Clawback Provisions

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

21. Directors' Remuneration Report

Share Scheme Leaver Provisions

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

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

Change of Control

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

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

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

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

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

For further information on agreements impacted by a change of control see the Directors' Report on pages 70 to 71.

Other Remuneration

External Appointments for Executive Directors

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

Payments Which are not in Accordance with the Policy

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

Minor Amendments

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

Illustration of Directors' Remuneration Policy

The bar charts on page 96 provide estimates of the potential future reward opportunity for each of the Executive Directors based on the Directors' Remuneration Policy outlined on pages 80 to 96.

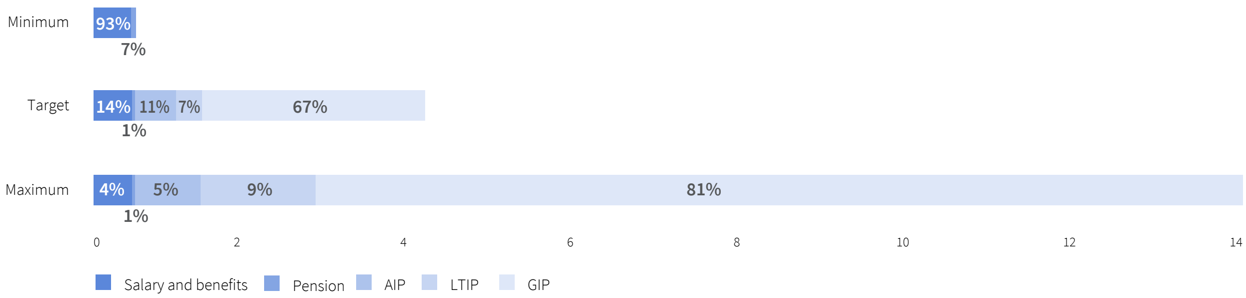
	AIP	LTIP	GIP	Base Salary, Benefits and Pension
Minimum	Performance is below threshold on each metric.	Performance is below threshold on each metric.	Performance is growth in the FTSE 100 Share Index plus not more than 5% p.a.	Fixed
Target or at Expectation	Performance is in line with the Company's expectations.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

21. Directors' Remuneration Report

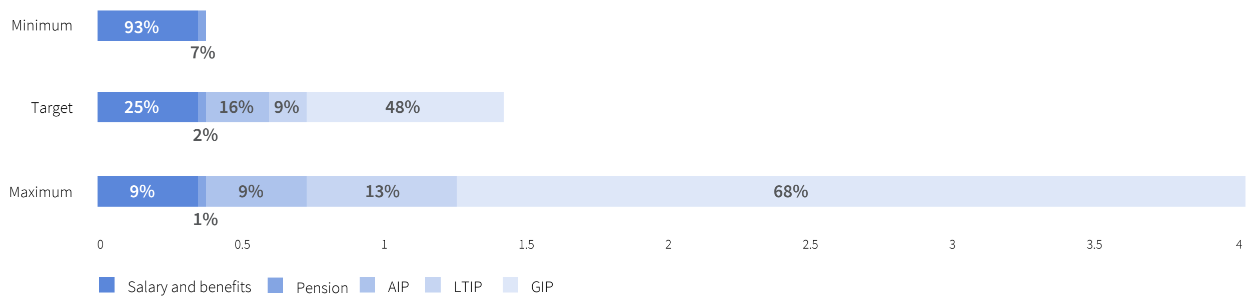
The figures use the 2016 base salary and pension (see pages 98 and 99) and value of benefits received for 2016 (see page 99). The performance related pay figures are based on the potential awards for 2017 (see pages 99 to 100), but it should be noted that LTIP awards granted in a year do not normally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

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

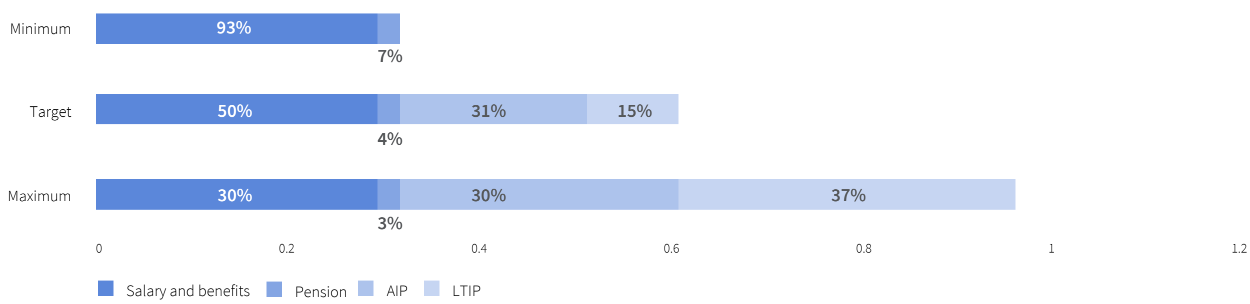
Tim Steiner, Chief Executive Officer (£m)



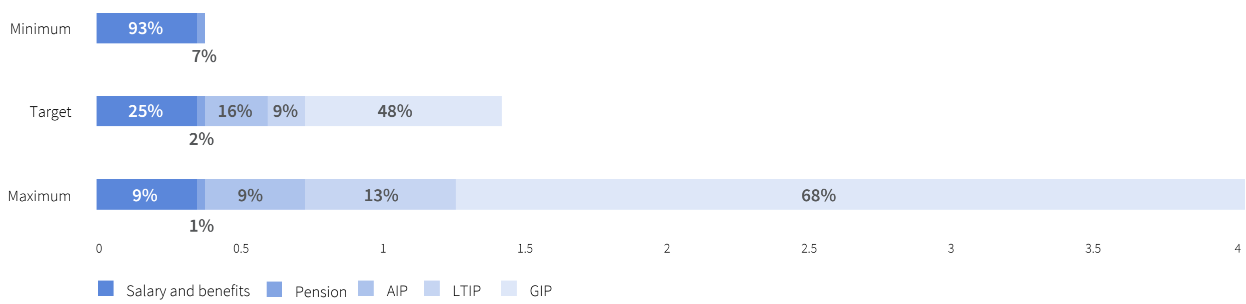
Duncan Tatton-Brown, Chief Financial Officer (£m)



Neill Abrams, Group General Counsel and Company Secretary (£m)



Mark Richardson, Chief Operations Officer (£m)



Annual Report on Remuneration — 2016

Introduction

This part of the Directors' Remuneration Report sets out the Directors' remuneration paid in respect of the 2016 financial year. It sets out the payments to Directors and details of the link between Company performance and remuneration of the Chief Executive Officer. This part, together with the "Description of the Remuneration Committee" section on pages 78 to 80 constitutes the Annual Report on Remuneration, and will be put to an advisory shareholder vote at the Company's AGM.

Highlights for 2016 (audited)

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

Base Pay and Benefits	Pension	AIP	Long-Term Incentives	All-Employee Schemes
Base pay increase of 3% for the Executive Directors, in line with other employees. Fee increases of 4.2% for the Non-Executive Directors (except the Chairman) in the period. No change to taxable benefits.	Company contributions to pensions for Executive Directors are currently significantly below the maximum provided for under the 2014 Policy.	Total bonus earned by Executive Directors for 2016 based on achievement of 43.7% to 44.1% of performance target, was £759,953 (2015: £1,115,370).	Awards were granted under the LTIP. For the 2014 LTIP awards, which are due to vest in March 2017, achievement was 42.76%.	ESOS options vested during the period. Ongoing participation in the SIP and Sharesave schemes.
Further Information:				
See page 98.	See page 99.	See page 99.	See page 101.	See pages 101 and 108 to 110.

Total Director Remuneration (audited)

The total remuneration paid to all of the Directors during the period was £4,856,000. The detailed remuneration breakdown for the Executive Directors and the Non-Executive Directors is set out separately.

21. Directors' Remuneration Report

Executive Directors

Total Remuneration (audited)

The total remuneration for the period for each of the Executive Directors is set out in the table below. Total cash-based remuneration paid to the Executive Directors was £2,472,000 in 2016, which was 11% lower than in 2015 (£2,773,000). The decline in cash-based remuneration is largely attributable to the lower payments under the AIP in 2016.

	Tim Steiner		Neill Abrams		Duncan Tatton-Brown		Mark Richardson		Total	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Salary	572	557	297	289	354	345	354	345	1,577	1,536
Taxable Benefits	2	3	1	1	1	1	1	1	5	6
Pensions	46	45	26	23	28	19	31	28	131	115
Total Fixed Pay	620	605	324	313	383	365	386	374	1,713	1,657
AIP	315	459	132	194	156	232	156	231	759	1,116
Total Remuneration in cash	935	1,064	456	507	539	597	542	605	2,472	2,773
Share Plans – requiring investment										
JSOS	—	—	—	—	—	—	—	—	—	—
Share Plans – awards										
LTIP	206	4,034	75	896	113	2,017	113	1,380	507	8,327
GIP	—	—	—	—	—	—	—	—	—	—
ESOS	—	—	—	—	—	—	—	—	—	—
2014 ESOS	—	—	—	—	—	—	—	—	—	—
SIP	—	—	—	—	—	—	—	—	—	—
Sharesave	—	—	—	—	—	—	—	—	—	—
Total for Share Plans	206	4,034	75	896	113	2,017	113	1,380	507	8,327
Recovery of Sums Paid	—	—	—	—	—	—	—	—	—	—
Total Remuneration	1,141	5,098	531	1,403	652	2,614	655	1,985	2,979	11,100

1. The value of LTIP awards for 2013 included in the column for the 2015 financial year has been restated to show the actual vested amount (based on the vesting of the award on 31 March 2016 at a price of 294 pence per share). The actual vested amount is £1.53 million lower than the estimated vested amount stated in the 2015 annual report of £9.86 million. The estimated vested amount was based on the three-month average share price from 1 September 2015 to 27 November 2015 of 348.02 pence per share. No dividends were paid.
2. The value of LTIP awards for 2014 included in the column for the Financial Year has been estimated based on 42.76% vesting and the three-month average share price from 1 September 2016 to 27 November 2016 of 275.42 pence per share, as these awards are not capable of vesting until after the end of the period, on 16 March 2017. This value assumes no dividends will be payable. The value assumes that the participant will not be required to pay an amount to acquire the conditional shares, being the nominal price of 2 pence per share. These estimated figures will be restated in next year's annual report.
3. The award of 9,923 share options made to Duncan Tatton-Brown in 2013 under the ESOS vested during the period. The award became exercisable on 8 July 2016. The award was made at a value of 302 pence per share. At the time of vesting, the share price was lower than the exercise price, and therefore the award has no value shown in the table.
4. Tim Steiner's taxable benefits have been restated for 2015 in relation to the use of a chauffeur to drive a car where such use was non-business related. Total remuneration for Tim Steiner has been restated accordingly.

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

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

Base Salary (audited)

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

Director	Salary 2016 (£)	Salary 2015 (£)	Effective from
Tim Steiner	577,830	561,000	1 April 2016
Duncan Tatton-Brown	357,204	346,800	1 April 2016
Mark Richardson	357,204	346,800	1 April 2016
Neill Abrams	300,000	290,700	1 April 2016

The changes to base salary were made in line with the 2014 Directors' Remuneration Policy. The Executive Directors received an increase in base pay of 3% which was in line with the percentage salary increases for the monthly paid employees of the Group in the period. The increases, which position the salaries broadly around the market median for a company of the Company's size and complexity, also aim to help retain the Executive Directors.

Taxable Benefits (audited)

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

Pensions (audited)

The Company made pension contributions on behalf of the Executive Directors to the defined contribution Group personal pension scheme. The employer contributions to the pension scheme in respect of each Executive Director are made in line with the Group personal pension scheme for all employees (the Company contributions being, for employees and Executive Directors joining the pension scheme before May 2013, from 3% up to 8%, 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. These contributions were made in line with the 2014 Directors' Remuneration Policy which allows the Company to make employer contributions of up to 30% of base salary.

During the period, the Company changed its GPP pension administrators from Standard Life to Legal & General following a pension provider review. As part of that transition, pension arrangements were changed to allow for pension contributions to be made by all employees on a salary sacrifice basis in accordance with the rules of the scheme.

Pension contributions can be made to the Executive Directors (and any other employee) as a cash allowance where the Executive Director (or employee) has reached either the HMRC annual tax free limit or HMRC lifetime allowance limit for pension contributions as provided for in the 2014 Directors' Remuneration Policy. In accordance with this policy, Tim Steiner, Duncan Tatton-Brown and Neill Abrams have elected to receive their pension contributions as an equivalent cash allowance for part and all of the year respectively.

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 2016 AIP was based on the performance targets and weightings set out below. Financial performance measures, namely Gross Sales (Retail)Ⓐ and EBITDAⒶ, were the primary targets, with 70% of the annual bonus being determined by performance against targets set by the Remuneration Committee at the start of the financial year, by reference to the Company's budget for the period. Of the balance, 30% related to individual objectives for each of the Directors, largely independent of the financial objectives. The Remuneration Committee has agreed "threshold" and "maximum" conditions that must be achieved. A bonus is not payable unless a "threshold" level of the performance condition has been achieved. At "threshold" performance for a financial performance measure, 8.75% of total bonus is payable and at "maximum" performance, 35% of total bonus is payable. A straight-line sliding scale will apply in relation to the intermediate points between the "threshold" and "maximum". Each target was discrete and could be earned separately. The Chief Executive Officer had a maximum bonus opportunity of 125% of salary and the other Executive Directors had a maximum opportunity of 100% of salary.

		Tim Steiner	Duncan Tatton-Brown	Mark Richardson	Neill Abrams
Financial objectives					
EBITDA (% of total target)		35	35	35	35
Gross Sales (Retail)Ⓐ (% of total target)		35	35	35	35
Individual objectives					
(% of total target)		30	30	30	30
Examples of business area objectives	**1.**	Deliver/progress key projects including new CFCs and technology	Drive sufficient cost challenge for operational programmes	Increase capacity at Dordon and Hatfield CFCs	Support all OSP contractual negotiations
	2.	Develop and drive long-term strategy	Continue to operate an efficient and effective finance and risk function	Progress Erith CFC and technology projects and keep them on schedule	Expand patent function and IP protection

Ⓐ See Alternative Performance Measures on page 194

21. Directors' Remuneration Report

Financial Targets and Individual Targets

Each Executive Director had four to five individual objectives, with different weightings, under the plan. They related to specific programmes relevant to each Executive Director's business area for which they have primary responsibility. All of the Executive Directors had an individual objective which concerned the strategic plans for the Ocado Smart Platform. 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 judgement on a scoring report by the Chief Executive Officer and the Chairman.

The Group's Gross Sales (Retail)Ⓐ for the period were £1,267 million, which was above the "threshold" of £1,254 million set under the 2016 AIP. The Group's EBITDA (pre-exceptional items)Ⓐ for the period was £84.3 million, which was above the "threshold" of £84.0 million set under the 2016 AIP.

The Remuneration Committee, in assessing performance, took into account the level of the Group's trading performance compared with UK grocery retail peers and the Group's progress against its strategic objectives. All Executive Directors met to some extent their individual objectives, with achievement being scored between 68% and 70% of maximum.

	Financial Targets										Individual Objectives			Total Payment	
	Gross Sales (Retail)Ⓐ					Group EBITDAⒶ									
	Target		Performance	Achievement		Target		Performance	Achievement		Performance	Achievement			
Director	Threshold	Maximum	Actual	% bonus	% salary	Threshold	Maximum	Actual	% bonus	% salary		% bonus	% salary	% salary	£'000
Tim Steiner	£1,254m	£1,330m	£1,267m	13.37%	16.71%	£84m	£91m	£84.3m	9.88%	12.35%	Note 1	20.40%	25.50%	54.5%	£315
Duncan Tatton-Brown	£1,254m	£1,330m	£1,267m	13.37%	13.37%	£84m	£91m	£84.3m	9.88%	9.88%	Note 1	20.55%	20.55%	43.8%	£156
Neill Abrams	£1,254m	£1,330m	£1,267m	13.37%	13.37%	£84m	£91m	£84.3m	9.88%	9.88%	Note 1	20.85%	20.85%	44.1%	£132
Mark Richardson	£1,254m	£1,330m	£1,267m	13.37%	13.37%	£84m	£91m	£84.3m	9.88%	9.88%	Note 1	20.40%	20.40%	43.7%	£156

1. There is no threshold or maximum target set for the individual objectives. Each objective is weighted and scored to provide a total score out of 30. Performance may range from zero to 30.
2. The applicable salary used for calculating the bonus payment under the rules of the 2016 AIP is the applicable base salary on the date of payment.

Disclosure of Targets

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

Summary of Bonus Earned

The Remuneration Committee has, in accordance with the 2014 Directors' Remuneration Policy and the rules of the 2016 AIP, recommended an aggregate bonus payment under the plan for the period of £759,953 (2015: £1,115,370), based on achievement between 43% and 44% of maximum (2015: achievement of 65% to 67% of maximum). The Remuneration Committee believes that this level of bonus payment appropriately reflects the performance of the business and individual performance during the period, which saw strong trading for the Group in a very competitive market. The table above summarises the bonus payments for each Executive Director for the 2016 AIP. The cash payments are expected to be made in February 2017. No amount has been deferred to a later date given that under the rules of the AIP deferral does not apply as all of the Executive Directors have met the minimum shareholding expectations under the 2014 Directors' Remuneration Policy.

A See Alternative Performance Measures on page 194

Share Plans

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

ESOS

The award of 9,923 share options, made to Duncan Tatton-Brown in 2013 under the ESOS, vested during the period. The award became exercisable on 8 July 2016. This was a one-off award of options made to Duncan after joining the Group. The Group had, until mid-2013, a policy of issuing options to all new employees and the Executive Directors shortly after joining the Group. The options were not subject to performance conditions but were not exercisable before the third anniversary of the grant date. On the first date the award became exercisable, the Company's share price was below the exercise price and so the award had no value on vesting. The details of the ESOS option are set out in the table below.

Director	Date of Grant	Number of options	Exercise price (£)	Price on date of vesting (£)	Value on date of vesting (£)
Duncan Tatton-Brown	08/07/2013	9,923	3.02	2.306	0

The options have not been exercised and are exercisable until July 2023.

LTIP

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

The three-year performance period for the 2014 LTIP awards expired at the end of the financial year. The Remuneration Committee reviewed the performance against the two equally weighted performance conditions, namely diluted and adjusted earnings per share and Group Revenue, for the 2015/2016 financial year.

The diluted and adjusted earnings per share for the period was 3.075 pence per share. Accordingly, achievement against this performance target was 42.76%. As noted on page 125 of this Annual Report, the Group's diluted earnings per share was 1.96 pence per share (2015: 1.91 pence per share). The EPS used as a performance criteria for the LTIP is adjusted to exclude exceptional costs and additional share scheme awards made since the 2014 award as agreed at the time of the award.

Group Revenue represented the other half of the award. As noted on page 125, the Group's Revenue for the period was £1,271.0 million, which was an increase of 14.8% on 2015 and an increase of 34% between 2014 and 2016, but which fell below the threshold of £1,385.5 million set under the LTIP award. Consequently, achievement against this performance target was 0%.

Accordingly, the Remuneration Committee has, in accordance with the 2014 Policy and the rules of the LTIP, recommended overall vesting of 42.76% for the 2014 LTIP awards. The Remuneration Committee believes that this level of vesting appropriately reflects the performance of business during the performance period. Details of performance are set out in the table below.

The value of the 2014 LTIP awards in the total remuneration table is estimated based on the average Company share price for the final three months of the period, being 275.42 pence per share.

The expected vesting date of the 2014 LTIP award is 16 March 2017 (which was changed from 31 March 2017, with the approval of the Remuneration Committee during the period, for administrative ease). Subject to the continued satisfaction of the award conditions, final vesting will be determined.

	Revenue				EPS				Total vesting	
	Target		Performance Achievement		Target		Performance Achievement			
Director	Threshold	Maximum	Actual	% of Maximum	Threshold	Maximum	Actual	% of Maximum	% of Maximum	£'000
Tim Steiner	£1,385.5m	£1,492.7m	£1,271.0m	0%	1.3pps	3.5pps	3.075pps	42.76%	42.76%	£206
Duncan Tatton-Brown	£1,385.5m	£1,492.7m	£1,271.0m	0%	1.3pps	3.5pps	3.075pps	42.76%	42.76%	£113
Neill Abrams	£1,385.5m	£1,492.7m	£1,271.0m	0%	1.3pps	3.5pps	3.075pps	42.76%	42.76%	£75
Mark Richardson	£1,385.5m	£1,492.7m	£1,271.0m	0%	1.3pps	3.5pps	3.075pps	42.76%	42.76%	£113

1. The Remuneration Committee has agreed "threshold" and "maximum" conditions that must be achieved. An award will not vest unless a "threshold" level of the performance condition has been achieved. At "threshold" performance for a financial performance measure, 12.5% of the total award will vest and 50% vesting will occur for achieving or exceeding "maximum" performance for a condition. A straight line sliding scale applies in relation to the intermediate points between the "threshold" and "maximum".
2. Details of the number of conditional shares awarded to each Director for the 2014 LTIP awards are shown in the table on page 106.

Recovery of Sums Paid (audited)

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

21. Directors' Remuneration Report

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 below) 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.

	Fees		Taxable Benefits		Pension Entitlements		Annual Bonus		Long-Term Incentives		Recovery of Sums Paid		Total Remuneration	
Non-Executive Director	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Lord Rose	200	200	—	—	—	—	—	—	1,334	—	—	—	1,534	200
Ruth Anderson	61	60	—	—	—	—	—	—	—	—	—	—	61	60
Robert Gorrie	49	48	—	—	—	—	—	—	—	—	—	—	49	48
Jörn Rausing	49	48	—	—	—	—	—	—	—	—	—	—	49	48
Douglas McCallum	61	60	—	—	—	—	—	—	—	—	—	—	61	60
Alex Mahon	56	48	—	—	—	—	—	—	—	—	—	—	56	48
Andrew Harrison	37	—	—	—	—	—	—	—	—	—	—	—	37	—
David Grigson	30	70	—	—	—	—	—	—	—	—	—	—	30	70
Total	543	534	—	—	—	—	—	—	1,334	—	—	—	1,877	534

1. Andrew Harrison joined the Board on 1 March 2016.
2. David Grigson resigned from the Board with effect from the 2016 annual general meeting on 4 May 2016.
3. For further details on the long-term incentive payment see the Chairman's Share Matching Award below.
4. Emma Lloyd was appointed on 1 December 2016, after the period end. Emma's fees are in line with the 2014 Directors' Remuneration Policy.

The remuneration arrangements for the Non-Executive Directors (except the Chairman) were reviewed by the Executive Directors and the Chairman during the period and the basic fees for non-executive directors were increased to £50,000 (2015: £48,000) per annum.

The review was carried out by the Executive Directors and Chairman in accordance with the 2014 Directors' Remuneration Policy and accordingly took into account the responsibility and time commitments of the roles of the Non-Executive Directors and Board committee chairmen, the financial position and trading performance of the business, and the appropriate benchmark data (provided by Deloitte) for comparable roles for companies of equivalent size and complexity to the Group.

The Chairman's fees were not subject to review in 2016 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 for the Non-Executive Directors (audited)

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

Robert Gorrie chairs the meetings of the Ocado National Council and occasionally provides advice on various employee matters, 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.

Chairman's Share Matching Award

The Chairman's Share Matching Award, which was awarded to Lord Rose on his becoming Chairman in May 2013, vested in May 2016.

Director	Date of grant	Number of shares	Value at grant (£)	Vesting date	Value on vesting (£)
Lord Rose	17/05/2013	452,284	400,000	10/05/2016	1,334,238

1. The value at grant of the award was 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 value on vesting was calculated using the closing share price of 295 pence per share on the day of vesting.

The vesting of the award was subject to the condition that the Chairman remained a Director of the Company. There were no performance criteria to which vesting was subject. Lord Rose may not dispose of the vested shares until the first anniversary of his ceasing to be a director of the Company.

The Chairman's Share Matching Award was approved by shareholders at the Company's annual general meeting on 10 May 2013. It was a one-off award made on Lord Rose's appointment as Chairman of the Board. On joining the Board, Lord Rose had already acquired 750,000 of the Company's ordinary shares on his own account. Lord Rose subscribed for the 452,284 ordinary shares at their nominal value, that is £9,046, on grant. No payment was required on vesting.

Recovery of Sums Paid (audited)

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

Other Remuneration Disclosures

Executive Directors' Service Contracts (audited)

Each of the Executive Directors has a service contract with the Group. The terms of these contracts are consistent with the 2014 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 (audited)

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

Deferral or Holding Periods (audited)

The current Executive Director share scheme awards do not contain any requirements for Directors to retain shares for a period after leaving the Company. However, the Remuneration Committee feels that their absence is materially mitigated by the existing large shareholdings held by the Executive Directors in the Company and by the lengthy five-year vesting period that applies to the GIP. Such factors help create a longer term focus from the Executive Directors and strong alignment with shareholders, as envisaged by Code principle D.1. Additionally, the 2017 Policy introduces a holding period of two years from the third anniversary of the date of grant under the LTIP. This is explained on page 80.

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

As announced on 28 January 2016 and 18 November 2016, it was determined in accordance with the 2014 Directors' Remuneration Policy that the arrangements set out below should apply in relation to David Grigson's and Robert Gorrie's remuneration on retirement, respectively.

Element of Remuneration	Treatment
Remuneration Payments	All outstanding fees were paid to David Grigson up to 4 May 2016, in accordance with the terms of his letter of appointment. All outstanding fees will be paid to Robert Gorrie up to 3 May 2017 in accordance with the terms of his letter of appointment. No payments are expected after the date of retirement for either Director. Although Robert Gorrie may continue to be paid a fee for services to the Group not in a Director capacity (as explained on page 53).
Payment for Loss of Office	No payment for loss of office or other remuneration payment was made or is expected to be made to either Director.
Share Schemes	At the time of retirement, neither David Grigson nor Robert Gorrie were participants in a Group share scheme.

Director Appointment Arrangements (audited)

As announced on 28 January 2016, Andrew Harrison was appointed to the Board as a Non-Executive Director with effect from 1 March 2016. Andrew Harrison's remuneration is in line with the 2014 Policy. On appointment, Andrew Harrison's basic annual fee was £48,000, which increased to £50,000 in April 2016 in line with the other Non-Executive Directors. Andrew Harrison will not receive any other benefits or payments, in line with the 2014 Policy.

Payments to Past Directors

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

Enforcing the Directors' Remuneration Policy

The Company has not made any payments to a Director outside of the 2014 Directors' Remuneration Policy. All of the Remuneration decisions regarding

21. Directors' Remuneration Report

executive remuneration for the period have been made in line with the 2014 Directors' Remuneration Policy.

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

External Remuneration for Executive Directors

As at the date of this Annual Report:

- In addition to his role as Executive Director of the Company, Neill Abrams is an alternate non-executive director of Mr Price Group Limited, listed on the Johannesburg Stock Exchange. The role does not involve any remuneration paid or payable to Neill.
- In addition to his role as Executive Director of the Company, Duncan Tatton-Brown is an independent non-executive director, senior independent director and audit committee chairman of Zoopla Property Group plc, listed on the London Stock Exchange. For his services to Zoopla Property Group plc Duncan was paid a fee of £62,500 in 2016, which will increase to £65,000 in 2017.
- In addition to his role as Executive Director of the Company, Mark Richardson is a non-executive director of Paneltex Limited. This role does not involve any remuneration paid or payable to Mark.

Director Shareholdings (audited)

The 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:

	Ordinary Shares of 2 Pence each held at 27 November 2016		Ordinary Shares of 2 Pence each held at 29 November 2015	
Director	Direct Holding	Indirect Holding	Direct Holding	Indirect Holding
Tim Steiner	15,205,557	14,292,464	14,478,423	14,291,200
Lord Rose	1,202,284	–	750,000	–
Duncan Tatton-Brown	561,363	61,247	97,865	60,650
Mark Richardson	243,808	6,328	–	694
Neill Abrams	754,386	1,319,048	597,007	1,314,339
Alex Mahon	17,355	–	11,099	–
Ruth Anderson	80,000	–	80,000	–
Robert Gorrie	415,660	–	415,660	–
Andrew Harrison	11,500	–	–	–
Douglas McCallum	100,000	–	20,000	–
Jörn Rausing	–	69,015,602	–	69,015,602

1. The indirect holding for Neill Abrams includes holdings of Caryn Abrams (wife of Neill Abrams) who holds 79,701 (2015: 79,745) ordinary shares, Daniella Abrams (daughter of Neill Abrams) who holds 1,363 (2015: nil) ordinary shares, Mia Abrams (daughter of Neill Abrams) who holds 1,363 (2015: nil) ordinary shares, Joshua Abrams (son of Neill Abrams) who holds 1,363 (2015: nil) ordinary shares and as a discretionary beneficiary of a trust holding 133,100 (2015: 133,100) ordinary shares.
2. The indirect holding for Duncan Tatton-Brown includes a holding by Kate Tatton-Brown (wife of Duncan Tatton-Brown) who holds 59,934 (2015: 60,000) ordinary shares.
3. The indirect holding for Mark Richardson includes a holding by Rebecca Richardson (wife of Mark Richardson) who holds 4,970 (2015: nil) ordinary shares.
4. 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 109. There have been no changes in the Directors' beneficial interests in trusts holding ordinary shares of the Company.
5. No Director had an interest in any of the Company's subsidiaries at the beginning or end of the period.
6. Tim Steiner has granted a security interest over his ordinary shares in the Company. The security interest has been granted in connection with a loan made to him. For further details, refer to the Company's announcement made on 28 November 2016. The security interest was granted over 15,197,812 ordinary shares in the Company and any further ordinary shares held by Tim Steiner from time to time. Arthur Seligman as trustee of the Steiner 2008 Millennium Trust, of which Tim Steiner is one of a number of discretionary beneficiaries, has granted a security interest over 14,291,200 ordinary shares in the Company.
7. On 13 May 2016, in respect of various contracts for the transfer of shares (as described on pages 235 and 238 of the Prospectus), Tim Steiner delayed the date on which completion under the contracts for transfer would take place to 30 June 2019, or such later date as the parties may agree. As a result of the security interest granted over Tim Steiner's ordinary shares in the Company, (see footnote 6) the completion of these contracts is conditional on the release of the security interest.
8. On 11 May 2016, in respect of various contracts for the transfer of shares (as described on pages 235 and 238 of the Prospectus), Neill Abrams delayed the date on which completion under the contracts for transfer would take place to 30 June 2019, or such later date as the parties may agree.
9. On 23 November 2016, Jörn Rausing notified the Company of a transfer of 69,015,602 shares in the Company from Hamilton Trust Company Limited as trustee of the Apple II Trust (of which Jörn Rausing is a beneficiary) to Apple III Limited (which is owned by Apple III Trust, of which Jörn Rausing is a beneficiary).
10. Where applicable, the above indirect holdings include SIP Partnership Shares held under the SIP, which are held in trust.
11. The Executive Director shareholdings have increased during the period primarily due to the vesting of the 2013 LTIP awards. For more details, see pages 106 and 107.
12. Emma Lloyd was appointed on 1 December 2016, after the period end. Emma has not purchased Company shares at the date of this Annual Report.
13. During the year, Non-Executive Director David Grigson retired from the Board. David Grigson held 35,000 ordinary shares at 29 November 2015 and on the date of his retirement on 4 May 2016.

Director Shareholding Requirement (audited)

The table below shows current compliance with the Director shareholding requirements in the 2014 Directors' Remuneration Policy as at the date of this Annual Report. All Directors comply with the Director shareholding requirements.

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 Tatton-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	Yes	Direct shareholdings
Ruth Anderson	100	Yes	Direct shareholdings
Alex Mahon	100	Yes	Direct shareholdings
Jörn Rausing	100	Yes	Indirect shareholdings
Andrew Harrison	100	n/a	n/a
Emma Lloyd	100	n/a	n/a

1. Andrew Harrison was appointed on 1 March 2016 and Emma Lloyd was appointed on 1 December 2016. Non-Executive Directors are expected to hold shares equivalent to one year's annual fee. This holding can be built up over three years from appointment. Therefore, while neither Andrew Harrison nor Emma Lloyd hold the requisite number of shares to comply with the shareholding requirement currently, both are compliant with the policy.
2. During the year, Non-Executive Director David Grigson retired from the Board. David Grigson held 35,000 ordinary shares at 29 November 2015 and on the date of his retirement on 4 May 2016, therefore complying with the shareholding requirement up to this date. His shareholdings were held directly.

The assessment for compliance is based on the current annualised salary or fee (as set out in the total remuneration tables) which applied on 18 January 2017 (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 264 pence per share on 18 January 2017), of the relevant shareholdings.

Director Interests in Share Schemes (audited)

JSOS (audited)

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

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

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

Vested: No JSOS share interests vested during the period.

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

Lapsed: No JSOS share interests lapsed during the period.

LTIP (audited)

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

Director	Type of Interest	Date of Grant	Basis on Which Award is made (% of Salary)	Number of Shares	Face Value of Award (£)	End of Performance Period	Expected Vesting Date
Tim Steiner	Conditional shares	05/02/14	200	174,588	900,000	27/11/16	16/03/17
	Conditional shares	13/03/15	200	291,005	1,100,000	03/12/17	13/03/18
	Conditional shares	17/03/16	200	429,885	1,122,000	02/12/18	17/03/19
Mark Richardson	Conditional shares	05/02/14	150	96,023	495,000	27/11/16	16/03/17
	Conditional shares	13/03/15	150	134,920	510,000	03/12/17	13/03/18
	Conditional shares	17/03/16	150	199,310	520,000	02/12/18	17/03/19
Neill Abrams	Conditional shares	05/02/14	120	64,016	330,000	27/11/16	16/03/17
	Conditional shares	13/03/15	120	90,476	342,000	03/12/17	13/03/18
	Conditional shares	17/03/16	120	133,655	349,000	02/12/18	17/03/19
Duncan Tatton-Brown	Conditional shares	05/02/14	150	96,023	495,000	27/11/16	16/03/17
	Conditional shares	13/03/15	150	134,920	510,000	03/12/17	13/03/18
	Conditional shares	17/03/16	150	199,310	520,000	02/12/18	17/03/19

1. The LTIP awards are conditional awards under the rules of the LTIP, which is a right to receive free shares in the Company, subject to the achievement of performance conditions over a three-year performance period.
2. The 2014 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 award is subject to two equally weighted performance conditions, which are the levels of diluted and adjusted earnings per share and Group Revenue, for the 2015/2016 financial year. For each target, at "threshold" performance, 12.5% of an LTIP award will vest and at "maximum" performance, 50% of an LTIP award will vest. Vesting will be on a straight-line basis between the "threshold" and the "maximum".
3. The 2015 LTIP award was determined based on a price of 378 pence per share, being the volume weighted average price of the Company's ordinary shares on the three trading days prior to 13 March 2015 (being the LTIP grant date). The 2015 LTIP award is subject to the achievement of four equally weighted performance conditions for the 2016/2017 financial year, being the third year of a three-year performance period. The performance conditions concerning the financial performance of the Group, both earnings before tax and revenue, will be focused on the Group's retail business performance and will be weighted 25% each. The new proprietary infrastructure solution performance conditions will each have a 25% weighting. The first concerns the operational efficiency of the Andover CFC in the 2016/17 financial year and the second concerns the capital cost for an Ocado Smart Platform module. In respect of a target, at "threshold" performance, 6.25% of an LTIP award will vest and at "maximum" performance, 25% of an LTIP award will vest. Vesting will be on a straight-line basis between the "threshold" and the "maximum".
4. The 2016 LTIP award is outlined below.
5. The 2014 LTIP awards are not capable of vesting until after the end of the period, on 16 March 2017 (which was changed from 31 March 2017, with the approval of the Remuneration Committee during the period, for administrative ease).

Granted: LTIP awards were made in respect of 2016 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 2014 Directors' Remuneration Policy. The number of shares subject to an LTIP award was determined based on a price of 261 pence per share, being the volume weighted average price of the Company's ordinary shares on the three trading days prior to 17 March 2016 (being the LTIP grant date).

The 2016 LTIP awards are conditional awards under the rules of the LTIP, which are a right to receive free shares in the Company, subject to the achievement of four equally weighted performance conditions for the 2017/2018 financial year, being the third year of a three-year performance period. The performance metrics relate to the retail business and the platform business. The Remuneration Committee believes that these performance conditions encourage the delivery of crucial strategic objectives of the Group. The performance conditions concerning the financial performance of the Group, both earnings before tax and revenue, will be focused on the Group's retail business performance and will be weighted 25% each. The new proprietary infrastructure solution performance conditions will each have a 25% weighting. The first concerns the operational efficiency of the Andover CFC in the 2017/2018 financial year and the second concerns the capital cost for an Ocado Smart Platform module.

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

Performance target	Commercial rationale	Basis of measurement
Retail business (50%)	Rewards top line sales growth for the retail business in line with the Group's strategy and the creation of financial returns to shareholders.	Group Revenue and earnings before tax for the retail business for the 2017/2018 financial year.
Platform business (50%)	Rewards progress and achievement with the proprietary infrastructure solution, which is a key strategy objective.	Operational efficiency of Andover CFC and the capital cost per Ocado Smart Platform modules for the 2017/2018 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 for a performance target, 6.25% of an LTIP award will vest and at "maximum" performance, 25% of an LTIP award will vest. Vesting will be on a straight-line basis between the "threshold" and the "maximum". Each target is discrete and can be earned separately. Full vesting will only occur where exceptional performance levels have been achieved and significant shareholder value created.

The performance conditions for the 2016 LTIP awards will be tested in relation to the financial year ending in 2018 to determine what percentage of the LTIP awards has been achieved, and will vest during 2019 to the extent that the performance conditions have been achieved.

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

Vested: The 2013 LTIP awards had a vesting date of 31 March 2016 for a three-year performance period that ended with the 2014/15 financial year. As explained in the previous annual report, the Remuneration Committee reviewed the performance against the 2013 LTIP performance target, which was the Group's earnings before interest and tax and pre-exceptional items and prior to the cost of the LTIP awards for management, for the 2014/15 financial year. The Group's earnings before interest and tax and exceptional items for the period was £21.4 million, which was an increase of 31.3% on 2014. The performance target also takes into account the share-based management incentive charges which were £7.8 million. The Group's earnings before interest and tax and pre-exceptional items and before the LTIP award costs for management was therefore £29.2 million, which exceeded the maximum performance target of £25.2 million for the 2013 LTIP awards. Accordingly, achievement against the performance condition was 100%.

The performance period for the 2014 LTIP awards finished in the year, although these awards are not capable of vesting until 16 March 2017 (as noted on page 101).

Sold: As a result of the vesting of the 2013 LTIP awards, the Executive Directors sold shares in the Company. The Directors sold sufficient of the shares that vested to cover the cost of the tax and National Insurance. The details of the LTIP vesting and resulting share sale for each Executive Director are set out below.

Director	Date of Grant	Grant price (£)	Number of Shares Vested	Date of Vesting and Sale	Share Price on Vesting (£)	Value of Shares Vested (£)	Shares Sold on Vesting	Shares Retained on Vesting
Tim Steiner	23/07/13	1.312	1,371,951	31/03/16	2.94	4,033,536	644,817	727,134
Duncan Tatton-Brown	23/07/13	1.312	685,975	31/03/16	2.94	2,016,767	322,409	363,566
Mark Richardson	23/07/13	1.312	469,512	31/03/16	2.94	1,380,365	220,671	248,841
Neill Abrams	23/07/13	1.312	304,878	31/03/16	2.94	896,341	143,293	161,585

1. For more details see the total remuneration table on page 98.

Lapsed: No LTIP awards lapsed during the period.

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GIP (audited)

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

Director	Type of Interest	Date of Grant	Number of Share Options	Face Value of Award (£)	End of Performance Period	Exercise Period
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

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

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

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

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

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

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

ESOS (audited)

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

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

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

Vested: For details of vested ESOS options, see page 101.

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

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

2014 ESOS (audited)

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

SIP (audited)

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

Director	Partnership Shares Acquired in the Year	Matching Shares Awarded in the Year	Free Shares Awarded in the Year	Total Face Value of Free Shares and Matching Shares Awarded in the Year (£)	Total SIP Shares Held 27/11/2016	SIP Shares that Became Unrestricted in the Period	Total Unrestricted SIP Shares Held at 27/11/2016
Tim Steiner	664	95	1,323	3,858	4,996	–	–
Duncan Tatton-Brown	663	95	1,312	3,829	4,938	–	–
Mark Richardson	664	94	1,312	3,825	4,990	–	–
Neill Abrams	664	95	1,102	3,256	4,436	–	–

1. Unrestricted shares are those which have been held beyond the three-year forfeiture period.
2. The value of the share awards made under the SIP is based on the middle market quotation of a share on the trading day immediately preceding the date of grant.

Granted: The Directors continued their SIP participation during the period. The SIP scheme is made available to all employees. The SIP allows for the grant of a number of different forms of awards. An award of free shares was made to the Executive Directors in September 2016 under the terms of the SIP and the 2014 Directors' Remuneration Policy. "Free shares" of up to £3,600 of ordinary shares may be allocated to any employee in any year. Free shares are allocated to employees equally on the basis of salary, as permitted by the relevant legislation.

An award of matching shares was made to those Executive Directors who purchased partnership shares (using deductions taken from their gross basic pay) under the terms of the SIP and in accordance with the 2014 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. 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. Between the end of the period and 18 January 2017, being the last practicable date prior to the publication of this Annual Report, the Executive Directors acquired or were awarded further shares under the SIP as set out in the table below:

Director	Partnership Shares Acquired	Matching Shares Awarded	Free Shares Award	Total Face Value of Free Shares and Matching Shares (£)	Total SIP Shares Held at 18/01/2017
Tim Steiner	116	17	–	44	5,129
Duncan Tatton-Brown	116	17	–	44	5,071
Mark Richardson	116	16	–	41	5,122
Neill Abrams	116	16	–	41	4,568

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

Vested: No awards under the SIP vested during the period. 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. No shares awarded under the SIP have become unrestricted. 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. Accordingly, no value is shown in the total remuneration table for the period.

Sold: No shares held under the SIP have been sold by an Executive Director.

Lapsed: No shares held by an Executive Director under the SIP lapsed during the period.

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Sharesave Scheme (audited)

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

Director	Type of Interest	Date of Grant	Number of Share Options	Exercise Price (£)	Face Value (£)	Exercise Period
Tim Steiner	Options	01/10/13	2,987	3.01	8,997	01/12/16 – 31/05/17
	Options	05/08/16	7,894	2.28	17,998	01/12/19 – 01/05/20
Neill Abrams	Options	01/10/13	2,987	3.01	8,997	01/12/16 – 31/05/17
	Options	05/08/16	7,894	2.28	17,998	01/12/19 – 01/05/20
Duncan Tatton-Brown	Options	01/10/13	2,987	3.01	8,997	01/12/16 – 31/05/17
	Options	05/08/16	7,894	2.28	17,998	01/12/19 – 01/05/20
Mark Richardson	Options	05/08/16	7,894	2.28	17,998	01/12/19 – 01/05/20

Granted: The Executive Directors elected to participate in the 2016 invitation under the Ocado Sharesave Scheme, where the Directors were granted options to purchase ordinary shares in the Company on the same terms as all other employees, at an exercise price of £2.28 per ordinary share, as set out in the table above. The exercise price for an option was the market value of the Company's shares for the five dealing days during the Sharesave application window, less a discount of 10%.

Vested: A savings contract under the Sharesave Scheme matured after period end, on 1 December 2016. Tim Steiner, Duncan Tatton-Brown and Neill Abrams each held 2,987 options at this date.

The value of the Directors' Sharesave awards at 1 December 2016 is the value of the savings made by each Director under the savings contract. At the time of vesting on 1 December 2016, the share price (of 264.00 pence per share) was lower than the exercise price (of 301 pence per share), meaning that the options had no value on vesting. Under the rules of the Sharesave Scheme, participants are able to withdraw their savings rather than exercising their options. The value of the savings made by each Director is £9,000. Participants are able to exercise their options until the end of the exercise period in May 2017.

Exercised: No awards under the Sharesave were exercised or sold by the Executive Directors during the period.

Lapsed: The Executive Directors elected to cancel their participation in the 2015 offer of Sharesave, resulting in the lapsing of the options originally granted to them on 1 April 2015 with an exercise price of 324 pence per share. The options would have become exercisable on 1 May 2018. Each had 2,777 options lapse, except in the case of Mark Richardson, who had 5,555 options lapse.

Chairman's Share Matching Award (audited)

The Chairman's Share Matching Award vested during the period. For further details of the vesting, see page 102.

Dilution

Dilution Limits

Awards granted under the Company's Sharesave, ESOS, 2014 ESOS and SIP schemes are met by the issue of new shares when the options are exercised or shares granted. The allocation of awards under the JSOS were met by the subscription for new shares by the participant and the EBT. Awards granted under the GIP may be met by the issue of new shares, the transfer of shares from treasury, or the purchase or transfer of existing shares by the EBT. Awards vesting under the LTIP were satisfied by the issue of new shares and 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 practicable date prior to the publication date of this Annual Report being 18 January 2017, 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

21. Directors' Remuneration Report

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 six financial years.

Year	Chief Executive Officer Total Remuneration (£'000)	AIP or Bonus Payment as a Percentage of Maximum Target Achievement (%)	Value of AIP or Bonus Payment (£'000)	Long-Term Incentives as a Percentage of Maximum Opportunity (%)
2016	1,141	43.6	315	35.6
2015	5,880	65.0	459	100
2014	6,483	56.0	385	100
2013	1,011	98.3	528	0
2012	483	29.7	104	0
2011	987	0	0	100
2010	599	n/a	220	0

1. The Chief Executive Officer total remuneration figures prior to the 2013 period represent the previously presented audited information with necessary adjustments for amounts required to be included in the single total figure of remuneration (such as pension amounts).
2. 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 that 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 and the first award had a performance period ending in 2015 and a vesting date in 2016. The GIP and SIP were both implemented in 2014, but have vesting dates in 2019 and 2017 respectively.
3. For an explanation of JSOS and the theoretical remuneration represented in the Chief Executive Officer's total remuneration, see page 112 in the 2014 Annual Report.

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 2015 to 2016	3%	3.5%
Percentage change in taxable benefits from 2015 to 2016	(33.33)%	7.69%
Percentage change in AIP earned from 2015 to 2016	(31.43)%	n/a

1. Most of the Group's employees are not entitled to earn an annual bonus payment as part of their remuneration.
2. The change in salary data for the Group's UK employees is on a per capita basis.

Relative Importance of Spend on Pay

The following table shows the Company's profit and total Group-wide expenditure on pay for all employees for the period and last financial year. The Company has not paid a dividend or carried out a share buyback in the current year or previous year. The information shown in this chart is:

- Profit – Group profit before tax as set out in Note 2.1 to the consolidated financial statements.
- Total gross employee pay – total gross employment costs for the Group (including pension, variable pay, share based payments and social security) as set out in Note 2.6 to the consolidated financial statements.

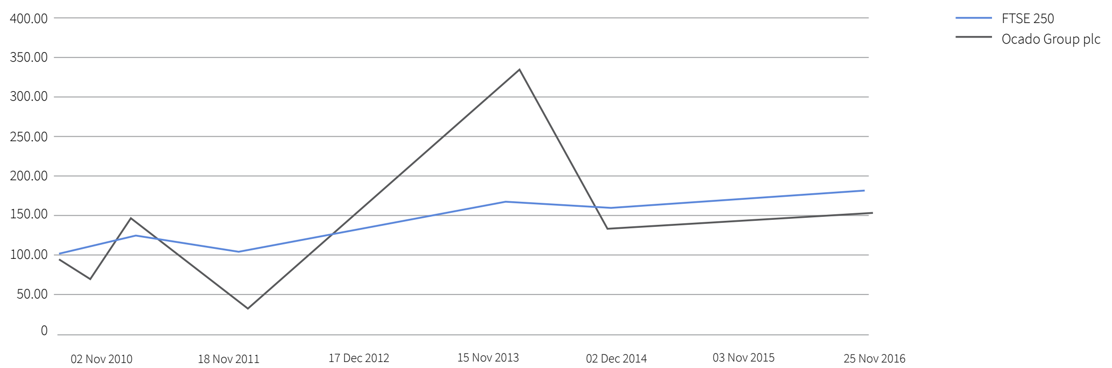
	27 November 2016 (£m)	29 November 2015 (£m)
Profit before tax	12.1	11.9
Total gross employee pay	287.7	239.9

Company Share Price

The closing market price of the Company's shares as at 25 November 2016, being the last trading day in the period ended 27 November 2016, was 275.8 pence per ordinary share (2015: 366.5 pence) and the share price range applicable during the period was 208.1 pence to 377.9 pence per ordinary share.

Total Shareholder Return

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



Annual Report on Remuneration — Implementation of Policy for 2017

Introduction

This part of the Directors' Remuneration Report sets out implementation of the Directors' remuneration for 2017.

Summary of Changes for Executive Directors

This table briefly summarises the proposals for the Directors' remuneration arrangements for 2017 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 2017 AIP.	No change to the maximum opportunity for the 2017 LTIP awards. A change to one of the platform business targets.	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 2017, in line with the timing of pay reviews for all of the Group's employees.

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

Pensions

No changes are proposed to the pension contributions for Executive Directors for 2017, which are expected to remain at the levels provided in the current period.

2017 AIP

The Remuneration Committee approved the implementation of an AIP for the Executive Directors applicable to the 2016/17 financial year. This plan broadly reflects the framework of the 2016 AIP and is line with the 2014 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 2016 AIP.

The weighting of objectives in the 2017 AIP is the same as the 2016 plan, with 35% for a Gross Sales[A] target, 35% for a Group EBITDA[A] target and 30% for performance measured against role-specific objectives. The Gross Sales[A] target relates to the Group's Gross Sales (Retail) and does not include any income or benefits from the Morrisons operation. The rationale for setting these performance measures has not changed from 2016. For an explanation, see the Annual Report on Remuneration on page 99.

The actual performance targets are not disclosed due to their commercial sensitivity on the basis that if disclosed it would likely damage the Company's commercial interests. The Company will disclose achievement against the targets after the end of the performance period, provided such disclosure is not considered commercially sensitive at the time.

A See Alternative Performance Measures on page 194

21. Directors' Remuneration Report

2017 LTIP Awards

The Remuneration Committee approved the making of awards under the LTIP for the Executive Directors for the 2016/2017 financial year. The amount of the LTIP awards is based on a percentage of salary, expected to be in line with the percentages agreed for the 2016 LTIP awards and in line with the 2014 Directors' Remuneration Policy.

As with the 2016 LTIP awards, the Remuneration Committee proposes to make 2017 LTIP award grants subject to earnings before tax and Revenue performance conditions in respect of the retail business for the 2018/2019 financial year. The other two performance targets relate to the platform business. The first of these is linked to the operational efficiency of the platform solution for the 2018/2019 financial year. The second of the platform business targets will be focused on expanding the Ocado Smart Platform business and specifically generating sales of the Ocado Smart Platform. This target replaces the performance target used for the 2015 and 2016 LTIP awards concerning the cost efficiency of the platform solution. This change to the LTIP performance targets reflects the Board's focus on rewarding the delivery of both a broader platform solution that includes store pick fulfilment and sales of the platform solution to new customers, while continuing to incentive improvements in operational efficiency. Each performance condition will have a 25% weighting.

No LTIP award will vest unless a "threshold" level of performance condition has been achieved. At "threshold" performance for a performance target, 6.25% of an LTIP award will vest and at "maximum" performance, 25% of an LTIP award will vest. Full vesting will occur where exceptional performance levels have been achieved and significant shareholder value created.

The actual performance targets are not disclosed due to their commercial sensitivity on the basis that if disclosed it would likely damage the Company's commercial interests. The Company will disclose achievement against targets after the end of the performance period, provided such disclosure is not considered commercially sensitive at the time.

SIP

The Executive Directors are expected to continue their participation in the SIP scheme in 2017.

Changes for Non-Executive Directors and Chairman

The review of remuneration of the Non-Executive Directors and the Chairman will be finalised in line with the timing of pay reviews for all of the Group's employees.

Shareholder Approval and Votes at AGM

The 2016 Directors' Remuneration Report will be subject to a shareholder vote at the AGM. Entitlement of a Director to remuneration is not made conditional on this resolution being passed.

The Remuneration Committee Chairman is committed to ongoing shareholder dialogue on Directors' remuneration and takes an active interest in voting outcomes. In the event of a substantial vote against a resolution in relation to the Directors' Remuneration Report, the Directors' Remuneration Policy or a new share scheme, the Company would seek to understand the reasons for any such vote and would detail in the announcement of the results of voting any actions it intends to take to understand the reasons behind the vote result and also note this in the next annual report. The Remuneration Committee considers that a vote against that exceeds 20% should be considered significant and requires explanation.

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

Resolution Text	Votes For	% For	Votes Against	% Against	Total Votes	Votes Withheld
2016 AGM						
Approve the 2015 Directors' Remuneration Report	**314,587,371**	**91.48**	**29,304,819**	**8.52**	**345,048,769**	**1,156,579**
2015 AGM						
Approve the 2014 Directors' Remuneration Report	377,215,710	80.61	90,709,506	19.39	476,384,487	8,459,271
2014 AGM						
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

Basis of Preparation and Audit Review

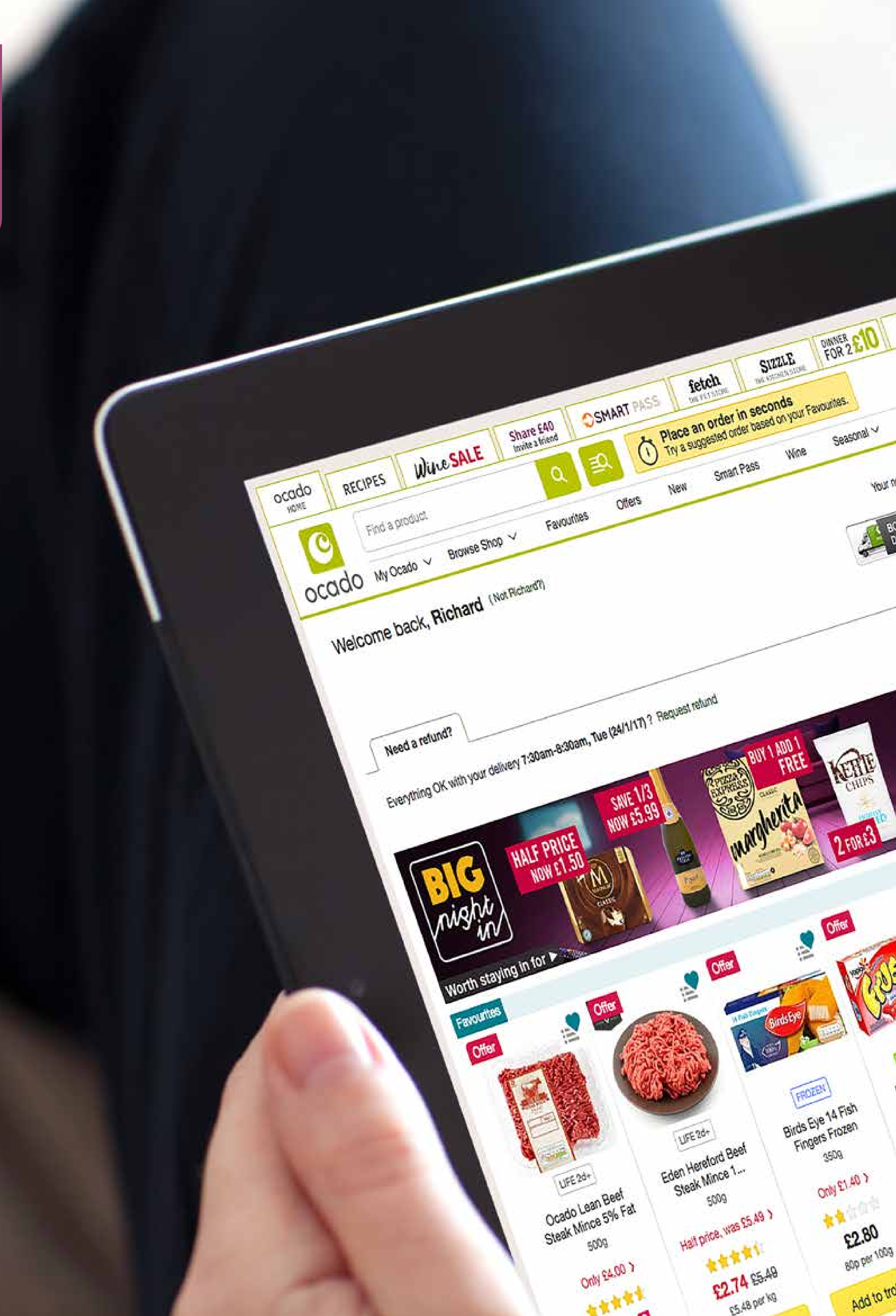
This report is a Directors' Remuneration Report for the 52 weeks ended 27 November 2016, prepared for the purposes of satisfying section 420(1) and section 421(2A) of the Companies Act. It has been drawn up in accordance with the Companies Act and the Code, the Regulations, the Listing Rules and the Disclosure Guidance and Transparency Rules.

In accordance with section 497 of the Companies Act and the Regulations, certain parts of this Directors' Remuneration Report (where indicated) have been audited by the Company's auditors, 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
31 January 2017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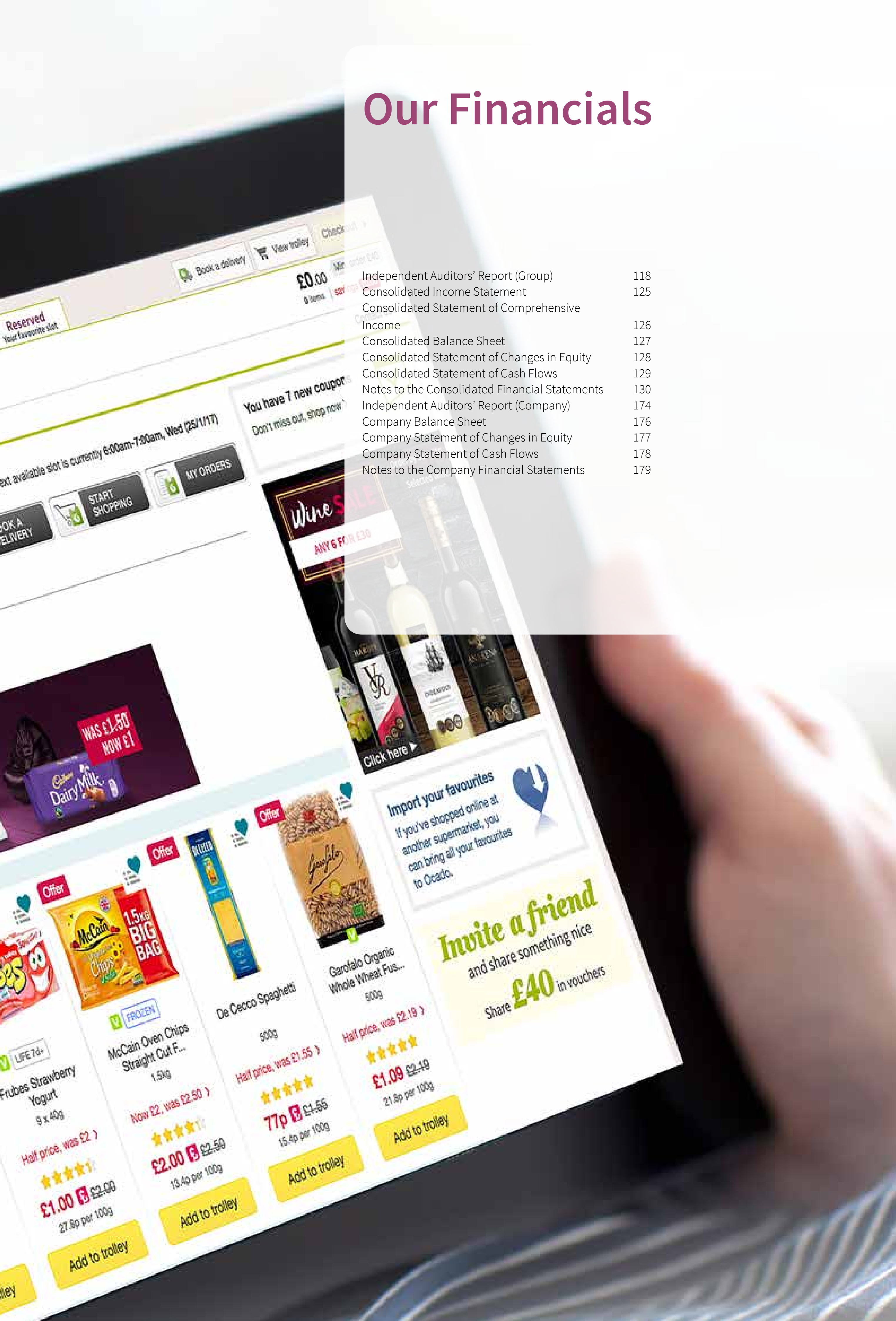
RECIPES
Wine SALE
Share £40 Invite a friend
SMART PASS
fetch THE PET STORE
SIZZLE THE KITCHEN STORE
DINNER FOR 2 £10
Place an order in seconds
Try a suggested order based on your Favourites.
Find a product
ocado
My Ocado
Browse Shop
Favourites
Offers
New
Smart Pass
Wine
Seasonal
Welcome back, Richard (Not Richard?)
Need a refund?
Everything OK with your delivery 7:30am-8:30am, Tue (24/1/17)? Request refund
BIG night in
Worth staying in for
HALF PRICE NOW £1.50
SAVE 1/3 NOW £5.99
BUY 1 ADD 1 FREE
2 FOR £3
Favourites
Offer
Ocado Lean Beef Steak Mince 5% Fat
500g
Only £4.00
Eden Hereford Beef Steak Mince 1...
500g
Half price, was £5.49
£2.74 £5.49
£5.48 per kg
FROZEN
Birds Eye 14 Fish Fingers Frozen
350g
Only £1.40
£2.80
80p per 100g

Our Financials



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 27 November 2016 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

The financial statements, included within the Annual Report, comprise:

- the Consolidated Balance Sheet as at 27 November 2016;
- 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 Consolidated financial statements, which include other explanatory information and the accounting policies.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

Our audit approach

Overview

Context

Our 2016 audit was planned and executed having regard to the fact that the operations of Ocado were largely unchanged from the prior year albeit the level of capital expenditure, particularly in relation to developing the OSP technology platform, continued to be significant. In addition we had regard to the continued tough trading environment in the UK grocery market, whilst noting that Ocado continued to grow its customer base and revenues, and the potential impact this might have on cash flow projections used to support asset carrying values. In light of this our overall audit approach in terms of scoping and areas of focus was largely unchanged from the prior year with continued scrutiny over the development and technical feasibility of key capital projects and the assessed economic return that these were anticipated to achieve.

- Overall group materiality: £4.7m which represents 0.37% of revenue.

- The complete financial information of the four significant 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.
- Deferred tax asset.

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	How our audit addressed the area of focus

Commercial income

As described in note 2.1 to the financial statements (page 134), Ocado has two main streams of commercial income; promotional allowances and volume rebates. In addition within other income are significant sums of advertising ("Media") income.

This remains an area of focus due to the judgments involved and the quantum of income recorded under these arrangements and its significance in relation to the result for the period. 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

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.

Volume rebates

Volume rebates is the stream of commercial income 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 11 and on arrangements with direct suppliers to Ocado. Both rebates earned under Waitrose managed supply arrangements and rebates earned from direct suppliers are material to the group's results. Entitlement to income under both the Ocado and Waitrose supply arrangements is based on the level of purchasing activity made by Ocado under the Waitrose sourcing agreement and direct supply agreements and the specific contractual terms negotiated with various suppliers by Waitrose, and in the case of direct suppliers, by Ocado.

As Waitrose negotiates and agrees a number of contracts with suppliers, Ocado has to determine income to be recorded based on interim payments received during the year and information provided by Waitrose in relation to amounts due at the period end. The key judgement that we therefore focus on in the calculation of Ocado's share of rebates due from Waitrose is the estimate of amounts to be accrued at the period end, based on information provided by Waitrose.

Similarly the key judgement in respect of rebates in relation to direct suppliers is the determination of levels of accrued income to recognise at the period end.

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.

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 a direct confirmation from Waitrose at the period end of the data used by Ocado to estimate the year end accrued income generated from supplies sourced through Waitrose. We reperformed the calculation undertaken by Ocado using this data to determine the year end accrued income and concluded the amounts recognised were reasonable.

In respect of income due under direct supply arrangements we circularised a number of suppliers to confirm directly the amount of accrued income that Ocado should recognise at the year end. We received confirmations from all suppliers circularised with no issues of note arising.

Overall commercial income

In relation to the overall amounts recognised for all material commercial income streams, we analysed the total amounts recognised quarterly for each stream, and compared these amounts to the equivalent quarter in the previous year, 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.

Independent Auditors' Report

to the members of Ocado Group plc

Area of focus	How our audit addressed the area of focus
Capitalisation of internal development costs As explained on page 20, 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 the Audit Committee Report on page 60 and in note 3.1 and 3.2, £45m 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 had 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 has continued to invest 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.	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 reconciling differences. We tested all projects where capitalised costs were in excess of £450,000, 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 £1.4m 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.

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 4.10. 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, Tax and Exceptionals’ targets and share price growth) which determines whether an award will crystallise, and the level of payout that will be achieved. Whilst there were no new material schemes introduced during the year there were a number of grants under pre-existing schemes. We focussed on understanding the details of each grant and the associated accounting in relation to such grants as well as existing schemes where measurement criteria, impacting the accounting, needed to be reassessed in the year.	For all new grants 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 performed sensitivity tests around the projected achievement levels. We also compared the future projections used by management, to determine the accounting charge, 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 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.
Deferred tax asset As set out in the Audit Committee Report on page 61 and note 2.8 Ocado recognise a deferred tax asset of £14.2m. This was an enhanced area of focus in the current year as the group now has recorded a profit in each of the last three years raising the prospect of potentially recognising a larger element of available tax losses as an asset on the balance sheet. Determining an appropriate level of deferred tax asset to recognise requires some judgement particularly in relation to the assessed future profitability of the business and the risk adjustment factors applied to these profit projections by management as described on page 132.	We obtained the detailed tax computation produced for the group and tested the computation of accelerated capital allowances and tax losses available to offset against current and future taxable profits. In addition we tested the arithmetic accuracy of the model used by management to derive the level of deferred tax asset to recognise as well as validating that the inputs to the model were appropriate and consistent, where appropriate, with projections used elsewhere in the business. No issues of note arose from this work. We further considered the appropriateness of the risk adjustment factor applied to the calculation having regard to the continued profitability of the business and the wider challenges and opportunities facing Ocado as set out in the strategic report on pages 8 and 9 and CEO’s review on pages 22 to 25. On balance we concluded that the level of risk adjustment was appropriate given the current and forecast trading performance of the business, the market place it operates in and the current status of international expansion plans.

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 geographic 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 8-12, 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 currently undertaken in the UK.

The group’s retailing, logistics and technology development operations are held in separate legal entities. The scope of our audit includes all the four significant 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 remaining trading entities, 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.

Independent Auditors' Report

to the members of Ocado Group plc

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 on the individual financial statement line items and disclosures and in evaluating 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	£4.7m (2015: £4.5m).
How we determined it	0.37% 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 £235,000 (2015: £225,000) as well as 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 35, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the directors' statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. 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.

Report on the group financial statements

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 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 group acquired in the course of performing our audit; or — otherwise misleading.	We have no exceptions to report.
• the statement given by the directors on page 57, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the group's position and 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.
• the section of the Annual Report on pages 59 to 63, 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.

The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

• the directors' confirmation on page 58 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
• the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
• the directors' explanation on page 35 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the directors' statement that they have carried out a robust assessment of the principal risks facing the group and the directors' statement in relation to the longer-term viability of the group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

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 this responsibility.

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

Independent Auditors' Report

to the members of Ocado Group plc

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on pages 72 to 73, 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 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 27 November 2016 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
30 January 2017

Consolidated Income Statement

for the 52 weeks ended 27 November 2016

	Notes	52 Weeks Ended 27 November 2016 £m	52 Weeks Ended 29 November 2015 £m
Revenue	2.3	**1,271.0**	1,107.6
Cost of sales		**(835.7)**	(732.5)
Gross profit		**435.3**	375.1
Other income	2.4	**52.9**	49.0
Distribution costs		**(365.7)**	(309.4)
Administrative expenses		**(100.6)**	(95.6)
Operating profit before result from joint venture and exceptional items		**21.9**	19.1
Share of result from joint venture	3.4	**2.1**	2.3
Exceptional items	2.7	**(2.4)**	—
Operating profit	2.5	**21.6**	21.4
Finance income	4.5	**0.2**	0.2
Finance costs	4.5	**(9.7)**	(9.7)
Profit before tax		**12.1**	11.9
Taxation	2.8	**(0.1)**	(0.1)
Profit for the period		**12.0**	11.8

Earnings per share		**pence**	pence
Basic earnings per share	2.9	**2.02**	2.01
Diluted earnings per share	2.9	**1.96**	1.91

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

	Notes	52 Weeks Ended 27 November 2016 £m	52 Weeks Ended 29 November 2015 £m
Operating profit		**21.6**	21.4
Adjustments for:			
Depreciation of property, plant and equipment	3.2	**47.0**	45.1
Amortisation expense	3.1	**12.6**	13.2
Impairment of property, plant and equipment	3.2	**0.3**	1.0
Impairment of intangible assets	3.1	**0.4**	0.8
Exceptional items – Impairment of property, plant and equipment	2.7, 3.2	**0.7**	—
Exceptional items – other	2.7	**1.7**	—
EBITDA		**84.3**	81.5

The notes on pages 130 to 173 form part of these financial statements.

A See Alternative Performance Measures on page 194

Consolidated Statement of Comprehensive Income

for the 52 weeks ended 27 November 2016

	52 Weeks Ended 27 November 2016 £m	52 Weeks Ended 29 November 2015 £m
Profit for the period	**12.0**	11.8
Other comprehensive income:		
Items that may be subsequently reclassified to profit or loss		
Cash flow hedges		
— Gains arising on forward contracts	**0.1**	0.2
— Gains arising on commodity swaps	**0.8**	—
— Losses arising on commodity swaps	**(0.2)**	(0.7)
Foreign exchange gains on translation of foreign subsidiary	**0.3**	—
Other comprehensive income for the period, net of tax	**1.0**	(0.5)
Total comprehensive income for the period	**13.0**	11.3

The notes on pages 130 to 173 form part of these financial statements.

Consolidated Balance Sheet

as at 27 November 2016

	Notes	27 November 2016 £m	29 November 2015 £m
Non-Current Assets			
Intangible assets	3.1	79.7	52.9
Property, plant and equipment	3.2	397.3	327.3
Deferred tax asset	2.8	14.2	10.0
Financial assets	3.3	2.6	2.9
Investment in joint ventures	3.4	57.1	62.0
		550.9	455.1
Current Assets			
Inventories	3.7	39.1	29.9
Trade and other receivables	3.8	59.4	60.8
Derivative financial instruments	4.6	0.3	—
Cash and cash equivalents	3.9	50.9	45.8
		149.7	136.5
Total Assets		700.6	591.6
Current Liabilities			
Trade and other payables	3.10	(205.6)	(164.4)
Borrowings	4.2	(52.9)	(1.6)
Obligations under finance leases	4.3	(29.8)	(26.5)
Derivative financial instruments	4.6	(0.2)	(0.7)
Provisions	3.11	(2.4)	(2.8)
		(290.9)	(196.0)
Net Current Liabilities		(141.2)	(59.5)
Non-Current Liabilities			
Borrowings	4.2	(6.1)	(7.7)
Obligations under finance leases	4.3	(127.0)	(137.0)
Provisions	3.11	(7.3)	(6.3)
Deferred tax liability	2.8	(6.9)	(2.7)
		(147.3)	(153.7)
Net Assets		262.4	241.9
Equity			
Share capital	4.9	12.6	12.6
Share premium	4.9	256.9	258.7
Treasury shares reserve	4.9	(48.0)	(50.9)
Reverse acquisition reserve	4.9	(116.2)	(116.2)
Other reserves	4.9	0.2	(0.8)
Retained earnings		156.9	138.5
Total Equity		262.4	241.9

The notes on pages 130 to 173 form part of these financial statements.

The Consolidated financial statements on pages 125 to 173 were authorised for issue by the Board of Directors and signed on its behalf by:

Tim Steiner
Chief Executive Officer

Duncan Tatton-Brown
Chief Financial Officer

Ocado Group plc
Company Registration Number 07098618 (England and Wales)
31 January 2017

Consolidated Statement of Changes in Equity

for the 52 weeks ended 27 November 2016

	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 30 November 2014		12.5	255.1	(51.8)	(116.2)	(0.3)	118.9	218.2
Profit for the period		—	—	—	—	—	11.8	11.8
Other comprehensive income:								
Cash flow hedges								
— Gains arising on forward contracts	4.9	—	—	—	—	0.2	—	0.2
— Losses arising on commodity swaps	4.9	—	—	—	—	(0.7)	—	(0.7)
Translation of foreign subsidiary	4.9	—	—	—	—	—	—	—
Total Comprehensive Income/(Expense) for the Period Ended 29 November 2015		—	—	—	—	(0.5)	11.8	11.3
Transactions with owners:								
— Issues of ordinary shares	4.9	0.1	4.4	—	—	—	—	4.5
— Share-based payments charge		—	—	—	—	—	7.8	7.8
— Reacquisition of interests in treasury shares		—	(0.8)	0.8	—	—	—	—
— Disposal of treasury shares		—	—	0.1	—	—	—	0.1
Total Transactions with Owners		0.1	3.6	0.9	—	—	7.8	12.4
Balance at 29 November 2015		12.6	258.7	(50.9)	(116.2)	(0.8)	138.5	241.9
Profit for the period		—	—	—	—	—	12.0	12.0
Other comprehensive income:								
Cash flow hedges								
— Gains arising on forward contracts	4.9	—	—	—	—	0.1	—	0.1
— Gains arising on commodity swaps	4.9	—	—	—	—	0.8	—	0.8
— Losses arising on commodity swaps	4.9	—	—	—	—	(0.2)	—	(0.2)
Translation of foreign subsidiary	4.9	—	—	—	—	0.3	—	0.3
Total Comprehensive Income for the Period Ended 27 November 2016		—	—	—	—	**1.0**	**12.0**	**13.0**
Transactions with owners:								
— Issues of ordinary shares	4.9	—	1.1	—	—	—	—	1.1
— Share-based payments charge	4.10	—	—	—	—	—	6.4	6.4
— Disposal of treasury shares	4.9	—	(2.9)	2.9	—	—	—	—
Total Transactions with Owners		—	(1.8)	2.9	—	—	6.4	7.5
Balance at 27 November 2016		**12.6**	**256.9**	**(48.0)**	**(116.2)**	**0.2**	**156.9**	**262.4**

The notes on pages 130 to 173 form part of these financial statements.

Consolidated Statement of Cash Flows

for the 52 weeks ended 27 November 2016

	Notes	52 weeks Ended 27 November 2016 £m	52 weeks Ended 29 November 2015 £m
Cash Flows from Operating Activities			
Profit before tax		12.1	11.9
Adjustments for:			
— Depreciation, amortisation and impairment losses	3.1, 3.2	61.0	60.1
— Movement in provisions	3.11	0.6	3.2
— Share of profit in joint venture	3.4	(2.1)	(2.3)
— Share-based payments charge	2.6	6.4	7.8
— Net Finance costs	4.5	9.5	9.5
Changes in working capital:			
— Movement in inventories		(9.2)	(2.3)
— Movement in trade and other receivables		2.5	(19.1)
— Movement in trade and other payables		25.2	23.7
Cash Generated from Operations		106.0	92.5
Interest paid		(9.1)	(9.7)
Net Cash Flows from Operating Activities		96.9	82.8
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		(85.3)	(70.7)
Purchase of intangible assets		(38.6)	(28.4)
Dividend received from joint venture		8.4	8.1
Interest received		0.2	0.2
Net Cash Flows from Investing Activities		(115.3)	(90.8)
Cash Flows from Financing Activities			
Proceeds from the issue of ordinary share capital net of transaction costs		1.1	4.5
Proceeds from borrowings		61.3	8.2
Repayment of borrowings		(11.5)	(5.6)
Repayments of obligations under finance leases		(26.4)	(26.9)
Payment of financing fees		(1.2)	(2.5)
Settlement of cash flow hedges		0.2	(0.2)
Net Cash Flows from Financing Activities		23.5	(22.5)
Net Increase/(Decrease) in Cash and Cash Equivalents		5.1	(30.5)
Cash and cash equivalents at the beginning of the period		45.8	76.3
Cash and Cash Equivalents at the end of the Period	3.9	50.9	45.8

The notes on pages 130 to 173 form part of these financial statements.

Notes to the Consolidated Financial Statements

Section 1 — Basis of Preparation

1.1 General Information

Ocado Group plc (hereafter "the Company") is a listed company incorporated in England and Wales under the Companies Act 2006 (Registration number 07098618). 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, its subsidiaries and the Group's interest in a jointly controlled entity (hereafter "the Group"). See Note 5.1. The Financial Period represents the 52 weeks ended 27 November 2016. The prior financial period represents the 52 weeks ended 29 November 2015. The principal activities of the Group are described in the Strategic Report on pages 6 to 43.

1.2 Basis of Preparation

The financial statements have been prepared in accordance with the Listing Rules and the Disclosure Guidance and Transparency Rules of the UK Financial Conduct Authority (where applicable), International Financial Reporting Standards (IFRS) and International Financial Reporting Standards Interpretation Committee (IFRIC) interpretations as endorsed by the European Union ("IFRS-EU"), and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The accounting policies applied are consistent with those described in the annual report and financial statements for the 52 weeks ended 29 November 2015 of Ocado Group plc.

The financial statements are presented in pounds sterling, rounded to the nearest hundred thousand unless otherwise stated. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial asset investments and certain financial assets and liabilities, which are held at fair value.

The Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements of the Group.

Standards, amendments and interpretations adopted by the Group in the financial period or issued that are effective

The Group has considered the following new standards, interpretations and amendments to published standards that are effective for the Group for the financial year beginning 30 November 2015 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 5	Share-based Payments	1 January 2016
IFRS 10	Consolidated Financial Statements	1 January 2016
IFRS 11	Joint Arrangements	1 January 2016
IFRS 12	Disclosure in Other Entities	1 January 2016
IAS 1	Presentation of Financial Statements	1 January 2016
IAS 16	Property, Plant and Equipment	1 January 2016
IAS 28	Investments in Associates and Joint Ventures	1 January 2016
IAS 36	Intangible Assets	1 January 2016

Standards, amendments and interpretations issued that are not effective, and which have not been early-adopted by the Group

The following further new standards, interpretations and amendments to published standards and interpretations which are relevant to the Group have been issued but are not effective for the financial year beginning 30 November 2015 and have not been adopted early:

		Effective Date
IFRS 2	Share-based payments	1 January 2018
IFRS 9	Financial Instruments	1 January 2018
IFRS 12	Disclosure in Other Entities	1 January 2017
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Leases	1 January 2019
IAS 28	Investments in Associates and Joint Ventures	1 January 2018
Various	Amendments to various IFRSs and IASs including those arising from the IASB's annual improvements project	Various

The following new standards are not yet effective and the impact on the Group is currently under review:

- IFRS 15 "Revenue from Contracts with Customers" (endorsed by the EU) provides on the recognition and measurement of revenue. The standard establishes a principles-based approach for revenue recognition and is based on the concept of recognising revenue for obligations only when they are satisfied and the control of goods or services is transferred. This applies to all contracts with customers except those in the scope of other standards. This new standard will replace IAS 12 "Revenue" and is effective for annual periods beginning on or after 1 January 2018 unless adopted early. The Group is currently reviewing the impact of IFRS 15.
- IFRS 16 "Leases" provides guidance on the classification, recognition and measurement of leases to help provide useful information to the users of financial statements. The main aim of this standard is to ensure all leases will be reflected on the Consolidated Balance Sheet, irrespective of substance over form. The new standard will replace IAS 17 "Leases" and is effective for annual periods beginning on or after 1 January 2019 unless adopted early. The Group is currently reviewing the impact of IFRS 16.

1.3 Basis of Consolidation

The consolidated Group financial statements consist of the financial statements of the Company, all entities controlled by the Company (its subsidiaries) and the Group's share of its interests in joint ventures.

Subsidiaries

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which power over the operating and financial decisions is obtained and cease to be consolidated from the date on which power is transferred out of the Group. Power is achieved when the Company has the ability and right, directly or indirectly, to govern the financial and operating policies of an entity. This ability enables the Company to affect the amount of economic benefit generated from the entity's activities. This is evident for all of the Group's subsidiaries per Note 5.1.

Ocado Polska Sp. Z.o.o. has a year end of 30 November 2016, as the Poland Accounting Act requires a financial year to be 12 full calendar months from the prior year end date. Ocado Spain S.L.U. has a year end of 31 December 2016, as established in its articles of association. There was no material movement between the reporting date of the Group and the reporting dates of these entities.

All other subsidiaries have a year end of 27 November 2016.

All intercompany balances and transactions, including recognised gains arising from inter-Group transactions, have been eliminated in full. Unrealised losses are eliminated in the same manner as recognised gains except to the extent that they provide evidence of impairment.

Joint Ventures

The Group's share of the results of joint ventures is included in the Consolidated Income Statement using the equity method of accounting. Investments in joint ventures are carried in the Consolidated Balance Sheet at cost plus post-acquisition changes in the Group's share of the net assets of the entity, less any impairment in value. The carrying values of the investments in joint ventures include acquired goodwill.

If the Group's share of losses in a joint venture or associate equals or exceeds its investment in the joint venture, the Group does not recognise further losses, unless it has incurred obligations to do so or made payments on behalf of the joint venture.

Unrealised gains arising from transactions with joint ventures are eliminated to the extent of the Group's interest in the entity.

Accounting Policies

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

Foreign Currency Translation

Functional and Presentation Currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). Sterling is the Company's functional and the Group's presentation currency.

Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated Income Statement, except when deferred in equity as qualifying cash flow hedges.

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

Group Companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

a. assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

b. income and expenses for each income statement are translated at average exchange rates (unless average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

c. all resulting exchange differences are recognised as a separate component of equity.

Notes to the Consolidated Financial Statements

1.4 Significant Accounting Policies and Critical Estimates, Judgements and Assumptions

The preparation of the Group financial statements requires the use of certain judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Changes in accounting estimates may be necessary if there are changes in the circumstances on which the estimate was based or as a result of new information or more experience. Significant accounting policies, estimates and assumptions, and judgements are provided below.

Accounting policies that are significant due to the nature of business:

Area	Estimate	Note
Revenue recognition	Revenue comprises the fair value of consideration received or receivable for the sale of goods and services. Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred, which is upon delivery of the goods to the customer's home for Ocado deliveries and upon transfer of goods to the courier for third party deliveries. Revenue from the rendering of services is recognised over the period in which services are rendered.	2.1

Significant Estimates and Assumptions:

Area	Estimate	Note
Cost of Sales	At the period end the Group is required to estimate supplier income due from annual agreements for volume rebates, which span across the year end date. Confirmation of some amounts due is often only received three to six months after the period end.	2.1
Share options and other equity instruments	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. Estimates applied or used in a valuation model in order to calculate the cost include, but are not limited to, the expected life of the award, the number of awards that will ultimately vest and the expected volatility of the Company's share price.	4.10

Significant Judgements:

Area	Judgement	Note
Recognition of deferred tax assets	Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Recognition, therefore, involves judgement regarding the prudent forecasting of future taxable profits of the business and in applying an appropriate risk adjustment factor.	2.8
Intangible assets (capitalisation of software costs)	The cost of internally generated assets is capitalised as an intangible asset where it is determined by management's judgement that the ability to develop the assets is technically feasible, will be completed, and that the asset will generate economic benefit that outweighs its cost.	3.1
Exceptional items Ⓐ	The Group applies judgement in identifying the significant non-recurring items of income and expense that are recognised as exceptional to help provide an indication of the Group's underlying business performance.	2.7
Share options and other equity instruments	The selection of valuation models, such as the Black–Scholes model, and parameters used in order to determine the fair value of certain share awards requires judgement.	4.10
Going concern	In order to assess whether it is appropriate for the Group to be reported as a going concern, the Directors apply judgement, having undertaken appropriate enquiries and having considered the business activities and the Group's principal risks and uncertainties as set out on pages 34 to 37. In arriving at this judgement there are a large number of assumptions and estimates involved in calculating future cash flow projections. This includes management's expectations of revenue, EBITDA Ⓐ, timing and quantum of future capital expenditure and estimates and cost of future funding. 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). The Directors judge that under the Group's current operating structure, the lowest level at which cash flows can be assessed is for the Group as a whole.	1.5

Other estimates, assumptions and judgements are applied by the Group. These include, but are not limited to, depreciation and amortisation on tangible and intangible assets respectively, and provisions. These estimates, assumptions and judgements are also evaluated on a continual basis but are not significant.

A See Alternative Performance Measures on page 194

1.5 Going Concern Basis including its Effect on the Impairment of Assets

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

In assessing going concern, the Directors take into account the Group's cash flows, solvency and liquidity positions and borrowing facilities. At the period end, the Group had cash and cash equivalents of £50.9 million (2015: £45.8 million), external gross debt[A] (excluding finance leases payable to MHE JVCo) of £107.0 million (2015: £53.3 million) and net current liabilities of £141.2 million (2015: £59.5 million). The Group has a mix of short and medium term finance arrangements and has a £210 million revolving credit facility which contains typical financial covenants and runs until July 2019. £52.5 million of this facility has been drawn down to date. The Group forecasts its liquidity requirements, working capital position and the maintenance of sufficient headroom against the financial covenants in its borrowing facilities (see below). The financial position of the Group, including information on cash flow, can be found in Our Financials on pages 125 to 189. In determining whether there are material uncertainties, the Directors consider the Group's business activities, together with factors that are likely to affect its future development and position (see section 7 on pages 14 to 15) and the Group's principal risks and the likely effectiveness of any mitigating actions and controls available to the Directors (see pages 34 to 37).

Further details of the Group's considerations are provided in the Group's Viability and Going Concern Statement on page 35.

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 and EBITDA[A], the timing and quantum of future capital expenditure, and estimation and cost of future funding.

A See Alternative Performance Measures on page 194

Notes to the Consolidated Financial Statements

Section 2 — Results for the Year

2.1 Profit Before Tax

Accounting Policies

Revenue

The Group follows the principles of IAS 18 "Revenue", in determining appropriate revenue recognition policies.

Revenue comprises the fair value of consideration received or receivable for the sale of goods and services. These are shown net of returns, relevant marketing vouchers/offers and value added taxes. Relevant vouchers/offers include money-off coupons, conditional spend vouchers and offers such as buy three for the price of two. Delivery and carrier bag receipts are included in revenue.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred. For deliveries performed by Ocado, recognition of revenue is upon delivery of the goods to the customer's home. For goods which are delivered by third party couriers, revenue is recognised when the items have been transferred to the third party for onward delivery to the customer. Income from "Ocado Smart Pass", the Group's discounted pre-pay membership scheme, is recognised in the period to which it relates, on an accruals basis.

Revenue from the rendering of services is recognised over the period in which services are rendered. Initial licence contract revenues are recognised over a term which is specific to individual customer contracts. For services, the term is the period over which services are rendered. For the licence of technology assets, the revenue is recognised over a period consistent with the expected life of the related technology assets. Annual licence contract revenues, including associated service and operational fees, are recognised as income in the relevant period.

Cost of Sales

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

Commercial Income

The Group continues to have agreements with suppliers whereby promotional allowances and volume-related rebates are received in connection with the promotion or purchase of goods for resale from those suppliers. The allowances and rebates are included in cost of sales. For the 52 weeks ended 27 November 2016, promotional allowances represent 82% (2015: 85%) of commercial income, with volume-related rebates representing 18% (2015: 15%).

Promotional Allowances

Cost of sales includes monies received from suppliers in relation to the agreed funding of selected items that are sold by the Group on promotion and is recognised once the promotional activity has taken place in the period to which it relates on an accruals basis. The estimates required for this source of income are limited because the time periods of promotional activity, in most cases, are less than one month and the invoicing for the activity occurs on a regular basis shortly after the promotions have ended.

Volume-Related Rebates

At the period end the Group is required to estimate supplier income due from annual agreements for volume rebates, which span across the year end date. Estimates are required due to the fact that confirmation of some amounts due is often only received three to six months after the period end. Where estimates are required, these are based on current performance, historical data for prior years and a review of significant supplier contracts. A material amount of this income is received from third parties via the Group's supply agreement with Waitrose. The estimates for this income are prepared following discussions with Waitrose throughout the year and regularly reviewed by senior management.

Uncollected Commercial Income

Uncollected commercial income as at the balance sheet date is classified within trade and other receivables. Where commercial income has been earned, but not yet invoiced at the balance sheet date, the amount is recorded in accrued income.

Other Income

Other income comprises the fair value of consideration received or receivable for advertising services provided by Ocado to suppliers and other third parties on the Webshop, commission income, rental income, sublease payments receivable and amounts receivable not in the ordinary course of business. Income for advertising services is recognised over the particular time period for which the service is provided on an accruals basis. An adjustment is made at the period end to accrue the amount of income in relation to campaigns that may span the period end; however, such adjustments are not typically material.

Employee Benefits

The Group contributes to the personal pension plans of its staff through two pension plans: a defined contribution Group personal pension, which was administered by Standard Life until August 2016 and is now administered by Legal & General, 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.

2.1 Profit Before Tax (continued)

Distribution Costs

Distribution costs consist of all the costs incurred, excluding product costs, to the point of sale. In most cases, this is the customer's home. This includes the payroll-related expenses for the picking, dispatch and delivery of products sold to the point of sale, the cost of making those deliveries, including fuel, tolls, maintenance of vehicles, the operating costs of the properties required for the picking, dispatch and onward delivery operations and all associated depreciation, amortisation and impairment charges, call centre costs and payment processing charges. This includes costs incurred on behalf of Morrisons which are subsequently recharged.

Administrative Expenses

Administrative expenses consist of all IT costs, advertising and marketing expenditure (excluding vouchers), share-based payments costs, employment costs of all central functions, which include board, legal, finance, human resources, marketing and procurement, rent and other property-related costs for the head office, all fees for professional services and the depreciation, amortisation and impairment associated with IT equipment, software, fixtures and fittings. Additionally, this includes costs incurred on behalf of Morrisons which are subsequently recharged.

Exceptional Items Ⓐ

The Group has adopted an income statement format which seeks to highlight significant items within the Group results for the year. The Group believes this format is useful as it highlights one-off items, such as material set-up costs for new fulfilment warehouses, reorganisation and restructuring costs, profit or loss on disposal of operations, and impairment of assets. Exceptional items, as disclosed on the face of the Consolidated Income Statement, are items that due to their material and/or non-recurring nature, as determined by management, have been classified separately in order to draw them to the attention of the reader of the financial statements and to avoid distortion of underlying performance. This facilitates comparison with prior periods to assess trends in financial performance more readily. It is determined by management that each of these items relates to events or circumstances that are non-recurring in nature.

The Group applies judgement in identifying the significant non-recurring items of income and expense that are recognised as exceptional to help provide an indication of the Group's underlying business performance. Examples of items that the Group considers as exceptional include, but are not limited to, material costs relating to the opening of a new warehouse, corporate reorganisations, head office relocation costs, and any material costs, outside of the normal course of business as determined by management.

2.2 Segmental Reporting

The Group's principal activities are grocery retailing and the development and monetisation of Intellectual Property ("IP") and technology used for the online retailing, logistics and distribution of grocery and consumer goods, 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 ("CODM") and for which discrete information is available. Operating segments are reported in a manner consistent with the internal reporting provided to the CODM, as required by IFRS 8. The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Directors.

The principal activities of the Group are currently managed as one segment. Consequently, all activities relate to this segment.

The CODM's main indicator of performance of the segment is EBITDA, which is reconciled to operating profit below the Consolidated Income Statement.

2.3 Gross Sales Ⓐ

The reconciliation of revenue to gross salesⒶ is as follows:

	52 Weeks Ended 27 November 2016 £m	52 Weeks Ended 29 November 2015 £m
Revenue	**1,271.0**	1,107.6
VAT	**98.9**	82.4
Marketing vouchers	**16.8**	14.4
Gross sales	**1,386.7**	1,204.4

A See Alternative Performance Measures on page 194

Notes to the Consolidated Financial Statements

2.4 Other Income

Other income comprises:

	52 Weeks Ended 27 November 2016 £m	52 Weeks Ended 29 November 2015 £m
Media and other income	38.6	35.3
Rental income	14.3	13.7
Other income	52.9	49.0

2.5 Operating Expenses

Operating expenses include:

	Notes	52 Weeks Ended 27 November 2016 £m	52 Weeks Ended 29 November 2015 £m
Cost of inventories recognised as an expense		821.2	715.3
Employment costs	2.6	249.3	212.8
Amortisation expense	3.1	12.6	13.2
Depreciation of property, plant and equipment	3.2	47.0	45.1
Impairment of property, plant and equipment, included in:			
— Distribution costs	3.2	0.3	1.0
— Exceptional items[A]	2.7, 3.2	0.7	—
Impairment of intangible assets, included in:			
— Administrative expenses	3.1	0.4	0.8
Impairment of receivables	3.8	1.1	0.8
Operating lease rentals			
— Land and buildings		12.8	10.3
— Other leases		—	0.3
Net foreign exchange movements		0.6	—

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

	52 Weeks Ended 27 November 2016 £'000	52 Weeks Ended 29 November 2015 £'000
Fees payable to the Company auditor for the audit of the Parent Company and consolidation		
— Statutory Group and Company audit	65	57
Fees payable to the Company auditor for other services		
— Statutory audit of subsidiaries	257	230
— Non-audit fees	50	37
— Audit related services	31	30
	403	354

A See Alternative Performance Measures on page 194

2.6 Employee Information

Employment costs during the financial period were as follows:

	52 Weeks Ended 27 November 2016 £m	52 Weeks Ended 29 November 2015 £m
Staff Costs During the Period:		
Wages and salaries	**252.8**	206.8
Social security costs	**22.2**	18.1
Other pension costs	**5.6**	5.1
Share-based payment expense*	**7.1**	9.9
Total gross employment costs	**287.7**	239.9
Staff costs capitalised to Intangible assets	**(29.8)**	(21.3)
Staff costs capitalised to property, plant and equipment	**(8.6)**	(5.8)
Total Employment Cost Expense	**249.3**	212.8
Average Monthly Number of Employees (including Executive Directors) by Function		
Operational staff	**9,308**	7,453
Support staff	**1,622**	1,241
	10,930	8,694

* Included in the share-based payment expense is the IFRS 2 equity-settled charge of £6.4 million (2015: £7.8 million) and an additional provision of £0.7 million (2015: £2.1 million) for the payment of amounts due to participants of the Cash LTIP and the Beauty MIP, and for the payment of employer's national insurance contributions on certain employee incentive schemes.

2.7 Exceptional items Ⓐ

	52 Weeks Ended 27 November 2016 £m	52 Weeks Ended 29 November 2015 £m
Head office relocation costs		
— Impairment of property, plant and equipment	**0.7**	—
— Other	**0.8**	—
Litigation costs	**0.9**	—
	2.4	—

Head office relocation costs

Following the growth of the business, the Group decided to relocate its head office. The move to the new premises is being completed in stages to minimise the impact on the business and the Group has incurred dual running costs as it transitions to the new premises. Due to the one-off nature of the head office move, these costs have been treated as exceptional.

Litigation costs

The Group has incurred litigation costs relating to the recovery of interchange fees for card transactions. The fees relating to this are material and non-recurring and have therefore been treated as exceptional.

A See Alternative Performance Measures on page 194

Notes to the Consolidated Financial Statements

2.8 Taxation

Accounting Policies

The tax charge for the period comprises current and deferred tax. Tax is recognised in the Consolidated Income Statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the tax is also recognised in other comprehensive income or directly in equity respectively.

Current Taxation

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

Deferred Taxation

Deferred tax is recognised using the balance sheet liability method on temporary differences arising between the tax base of assets and liabilities and their carrying amount in the financial statements. Deferred tax is calculated at the tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of reversal of the temporary differences is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

Research and Development Expenditure Credit

The Group takes advantage of the incentives offered under the UK's Research and Development Expenditure Credit (RDEC) regime to claim a credit for the Group's significant expenditure on qualifying research and development. As enacted in the Finance Act 2015, the credit due to the Group is equal to 11% of the Group's qualifying expenditure. The Group continues to utilise the additional benefits from the scheme in light of the Group's commitment to its innovative technology and software.

The Group claimed a credit of £1.3 million for the 52 weeks ended 29 November 2015.

Future Changes to Tax Legislation

The Group undertakes regular reviews in order to ensure its ongoing compliance with current and future proposed changes to UK tax legislation. The Group has undertaken a review of the Group's activities in light of the OECD's Base Erosion and Profit Shifting (BEPS) publications and does not foresee any significant impact on the Group's effective tax rate resulting from the proposed changes in the short to medium term.

Taxation — Income Statement

	52 Weeks Ended 27 November 2016 £m	52 Weeks Ended 29 November 2015 £m
Recognised in the Consolidated Income Statement		
Current tax:		
UK corporation tax on profits of the period	—	0.1
Overseas corporation tax on profits of the period	**0.1**	(0.1)
Adjustments in respect of prior periods	—	0.1
Total Current Tax	**0.1**	0.1
Deferred tax:		
Origination and reversal of temporary differences	—	—
Total Deferred Tax	—	—
Income Tax Expense	**0.1**	0.1

2.8 Taxation (continued)

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the effective tax rate applicable to profits of the Group as follows:

	52 Weeks Ended 27 November 2016 £m	52 Weeks Ended 29 November 2015 £m
Profit before tax	12.1	11.9
Effective tax charge at the UK tax rate of 20% (2015: 20.3%)	2.4	2.4
Effect of:		
Utilisation of brought forward losses	(0.6)	—
Permanent differences	1.7	1.8
Difference in overseas tax rates	—	0.6
Temporary differences on which no deferred tax recognised	(3.4)	(4.8)
Prior year adjustments	—	0.1
Income Tax charge for the Period	0.1	0.1

As enacted in Finance Act 2014, the standard rate of corporation tax in the UK changed from 21% to 20% with effect from 1 April 2015. The effective rate for the period is 20%.

Taxation — Balance Sheet

Movement in the deferred tax asset is as follows:

	Tax Losses Carried Forward £m
As at 30 November 2014	9.4
Effect of change in UK corporation tax rate	(0.9)
Recognised through the Consolidated Income Statement	1.5
As at 29 November 2015	10.0
Recognised through the Consolidated Income Statement	4.2
As at 27 November 2016	14.2

As enacted in the Finance Act (No.2) 2016, the main rate of corporation tax will change from 20% to 19% from 1 April 2017, to 18% from 1 April 2018 and to 17% from 1 April 2020. Deferred tax has been provided at the rate at which the deferred tax asset is expected to be utilised.

Movement in the unrecognised deferred tax asset is set out below:

	Tax Losses Carried Forward £m	Accelerated Capital Allowances £m	Other Short-Term Timing Differences £m	Total £m
As at 30 November 2014	47.6	15.0	0.5	63.1
Effect of change in UK corporation tax rate	(4.8)	(1.5)	—	(6.3)
Potential movement in the period unrecognised through:				
— Consolidated Income Statement	(1.1)	(8.0)	(0.5)	(9.6)
As at 29 November 2015	41.7	5.5	—	47.2
Adjustment through submitted corporation tax returns	(2.6)	16.1		13.5
Potential movement in the period unrecognised through:				
— Consolidated Income Statement	(4.9)	(10.0)	—	(14.9)
As at 27 November 2016	34.2	11.6	—	45.8

Notes to the Consolidated Financial Statements

2.8 Taxation (continued)

As at 27 November 2016 the Group had approximately £268.6 million of unutilised tax losses (2015: approximately £287.8 million) available for offset against future profits. A deferred tax asset of £14.2 million (2015: £10.0 million) has been recognised in respect of £78.9 million (2015: £55.6 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 forecast operating results calculated in approved business plans and a review of tax planning opportunities. Management have concluded that there is sufficient evidence for the recognition of the deferred tax asset of £14.2 million (2015: £10.0 million).

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

Movement in the recognised deferred tax liability is set out below:

	£m
As at 30 November 2014	(2.0)
Effect of change in UK corporation tax rate	0.2
Recognised through the Consolidated Income Statement	(0.9)
As at 29 November 2015	(2.7)
Recognised through the Consolidated Income Statement	**(4.2)**
As at 27 November 2016	**(6.9)**

For the year ended 27 November 2016 the Group has recognised a deferred tax liability of £6.9 million (2015: £2.7 million). Of this amount, £6.9 million (2015: £2.3 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.

2.9 Earnings Per Share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares held pursuant to the Group's JSOS on an allocated basis which are accounted for as treasury shares.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion or vesting of all dilutive potential shares. The Company has two classes of instruments that are potentially dilutive: share options and share interests held pursuant to the JSOS.

Basic and diluted earnings per share has been calculated as follows:

	52 Weeks Ended 27 November 2016 Number of Shares (m)	52 Weeks Ended 29 November 2015 Number of Shares (m)
Issued shares at the beginning of the period, excluding treasury shares	**590.6**	586.1
Effect of share options exercised in the period	**2.5**	2.2
Effect of treasury shares disposed of in the period	**1.3**	—
Weighted average number of shares at the end of the period for basic earnings per share	**594.4**	588.3
Potentially dilutive share options and shares	**19.1**	31.1
Weighted average number of diluted ordinary shares	**613.5**	619.4

	£m	£m
Profit attributable to the owners of the Company	**12.0**	11.8

	pence	pence
Basic earnings per share	**2.02**	2.01
Diluted earnings per share	**1.96**	1.91

Section 3 — Assets and Liabilities

3.1 Intangible Assets

Accounting Policies

Intangible Assets

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

Amortisation of intangible assets is calculated on a straight-line basis from the date on which they are brought into use, charged to administrative expenses, and is calculated based on the useful lives indicated below

Internally generated assets	3–15 years, or the lease term if shorter
Other intangible assets	3–15 years, or the lease term if shorter
Right to use land	The estimated useful economic life, or the lease term if shorter

Amortisation periods and methods are reviewed annually and adjusted if appropriate.

Cost Capitalisation

The cost of internally generated assets is capitalised as an intangible asset where it is determined by management's judgement that the ability to develop the assets is technically feasible, will be completed, and that the asset will generate economic benefit that outweighs its cost. This is in line with the recognition criteria as outlined in IAS 38 "Intangible Assets". Management determine whether the nature of the projects meets the recognition criteria to allow for the capitalisation of internal costs, which include the total cost of any external products or services and labour costs directly attributable to development. During the year management have considered whether costs in relation to the time spent on specific software projects can be capitalised. Time spent that was eligible for capitalisation included time which was intrinsic to the development of new assets to be used or monetised by the Group, the enhancement of existing warehouse and routing systems capabilities, or improvements to applications used by the Group's customers.

Other development costs that do not meet the above criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Research expenditure is recognised as an expense as incurred. These are costs that form part of the intent of gaining new knowledge, which management assess as not satisfying the capitalisation criteria per IAS 38 "Intangible Assets" as outlined above. Examples of research costs include, but are not limited to, the following: salaries and benefits of employees assessing and analysing future technologies and their likely viability, and professional fees such as marketing costs and the cost of third party consultancy.

In certain circumstances, some assets are ready for use, but are not performing as intended by management. Development costs that relate to the enhancement or modifications of existing assets are capitalised until the asset is performing as intended by management. Management assess the capitalisation of these costs by consulting the guidance outlined in IAS 38 "Intangible Assets" and exercise judgement in determining the qualifying costs. When unsure if the enhancement or modification costs relate to the development of the asset or are maintenance expenditure in nature, management treat the expenditure as if it were incurred in the research phase only in line with IAS 38 guidance.

Internally generated assets consist primarily of costs relating to intangible assets which provide economic benefit independent of other assets, and intangible assets that are utilised in the operation of property, plant and equipment. These intangible assets are required for certain tangible assets to operate as intended by management. Management assess each material internally generated asset addition and consider whether it is integral to the successful operation of a related item of hardware, can be used across a number of applications and therefore whether the asset should be recognised as property, plant and equipment. If the asset could be used on other existing or future projects it will be recognised as an intangible asset. For example, should an internally generated asset, such as the software code to enhance the operation of existing CFC equipment, be expected to form the foundation or a substantial element of future software development, it has been recognised as an intangible asset.

Of the internally generated assets capitalised, 22% (2015: 19%) relates to asset additions within property, plant and equipment.

Notes to the Consolidated Financial Statements

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 Consolidated Income Statement.

The useful life is determined by management at the time the software is acquired and brought into use and is regularly reviewed for appropriateness. For computer software licences, the useful life represents management's view of the expected period over which the Group will receive benefits from the software.

For unique software products developed and controlled by the Group, the life is based on historical experience with similar products as well as anticipation of future events which may impact their useful life, such as changes in technology.

Where the right to use land has been granted, the period over which the amortisation is charged is the lower of the estimated useful economic life and the lease expiry date.

	Internally Generated Assets £m	Other Intangible Assets £m	Total Intangible Assets £m
Cost			
At 30 November 2014	65.6	13.2	78.8
Additions	—	4.4	4.4
Internal development costs capitalised	24.1	—	24.1
Disposals	(6.7)	—	(6.7)
At 29 November 2015	83.0	17.6	100.6
Additions	**—**	**4.9**	**4.9**
Internal development costs capitalised	**34.9**	**—**	**34.9**
Disposals	**(0.3)**	**(0.2)**	**(0.5)**
At 27 November 2016	**117.6**	**22.3**	**139.9**
Accumulated Amortisation			
At 30 November 2014	(36.6)	(3.8)	(40.4)
Charge for the period	(12.4)	(0.8)	(13.2)
Impairment	(0.8)	—	(0.8)
Disposals	6.7	—	6.7
At 29 November 2015	(43.1)	(4.6)	(47.7)
Charge for the period	**(11.8)**	**(0.8)**	**(12.6)**
Impairment	**(0.4)**	**—**	**(0.4)**
Disposals	**0.3**	**0.2**	**0.5**
At 27 November 2016	**(55.0)**	**(5.2)**	**(60.2)**
Net Book Value			
At 29 November 2015	39.9	13.0	52.9
At 27 November 2016	**62.6**	**17.1**	**79.7**

Included within intangible assets is capital work-in-progress for internally generated assets of £20.0 million (2015: £21.7 million) and capital work-in-progress for other intangible assets of £3.3 million (2015: £7.2 million).

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

	52 Weeks Ended 27 November 2016 £m	52 Weeks Ended 29 November 2015 £m
Cost	**14.3**	13.8
Accumulated amortisation	**(11.2)**	(9.3)
Net Book Value	**3.1**	4.5

For the 52 weeks ended 27 November 2016, internal development costs capitalised represented approximately 88% (2015: 85%) of expenditure on intangible assets and 22% (2015: 19%) 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.

Property, plant and equipment represents 57% of the total asset base of the Group in 2016 (2015: 55%). The estimates and assumptions made to determine the carrying value of property, plant and equipment and related depreciation are important to the Group's financial position and performance. Management assess the estimates and assumptions based on available external information and historical experience.

In determining the cost of property, plant and equipment, certain costs that relate to the intangible element of an asset are separately disclosed within Intangible assets, Note 3.1. Management exercise judgement to review each material asset addition and consider whether the intangible asset element can be used for other property, plant and equipment additions in the current or future years. Software written for the Group's first CFC in Hatfield is identified as a standalone intangible asset, because it has provided the foundation for software used in some areas of Dordon CFC, and is expected to provide part of the foundation of software used in future centres including Andover CFC.

For more information on the Group's policy on capitalisation of borrowings costs, see Note 4.1.

Depreciation on property, plant and equipment is charged to distribution costs and administrative expenses and is calculated based on the useful lives indicated below:

Freehold buildings and leasehold properties	25 years, or the lease term if shorter
Fixtures and fittings	5–10 years, or the lease term if shorter
Plant and machinery	3–20 years, or the lease term if shorter
Motor vehicles	2–7 years, or the lease term if shorter

Land is held at cost and not depreciated.

Assets in the course of construction are carried at cost less any recognised impairment loss. Cost includes professional fees and other directly attributable costs. Depreciation of these assets commences when the assets are ready for their intended use, on the same basis as other property assets.

Gains and losses on disposal are determined by comparing proceeds with the asset's carrying amount and are recognised within operating profit.

Estimation of Useful Life

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

The charge in respect of periodic depreciation is derived by estimating an asset's expected useful life and the expected residual value at the end of its life. Increasing an asset's expected life or its residual value would result in a reduced depreciation charge in the Consolidated Income Statement. The useful lives of the Group's assets are determined by management at the time the asset is acquired and reviewed at least annually for appropriateness.

Management also assess the useful lives based on historical experience with similar assets as well as anticipation of future events which may impact their useful life, such as changes in technology. 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 on assets with indefinite useful lives. Those which do not have indefinite useful lives are subject to an annual depreciation or amortisation charge. These assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units).

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.

Notes to the Consolidated Financial Statements

3.2 Property, Plant and Equipment (continued)

	Land and Buildings £m	Fixtures, Fittings, Plant and Machinery £m	Motor Vehicles £m	Total £m
Cost				
At 30 November 2014	55.2	352.1	47.4	454.7
Additions	25.5	48.5	18.4	92.4
Internal development costs capitalised	—	5.8	—	5.8
Disposals	—	(3.1)	(10.6)	(13.7)
At 29 November 2015	80.7	403.3	55.2	539.2
Additions	**27.6**	**63.7**	**16.6**	**107.9**
Internal development costs capitalised	**—**	**10.1**	**—**	**10.1**
Disposals	**(0.1)**	**(4.9)**	**(7.5)**	**(12.5)**
At 27 November 2016	**108.2**	**472.2**	**64.3**	**644.7**
Accumulated Depreciation				
At 30 November 2014	(18.5)	(138.8)	(22.2)	(179.5)
Charge for the period	(1.9)	(33.4)	(9.8)	(45.1)
Impairment	(0.1)	(0.9)	—	(1.0)
Disposals	—	3.1	10.6	13.7
At 29 November 2015	(20.5)	(170.0)	(21.4)	(211.9)
Charge for the period	**(1.9)**	**(33.4)**	**(11.7)**	**(47.0)**
Impairment	**—**	**(1.0)**	**—**	**(1.0)**
Disposals	**0.1**	**4.9**	**7.5**	**12.5**
At 27 November 2016	**(22.3)**	**(199.5)**	**(25.6)**	**(247.4)**
Net Book Value				
At 29 November 2015	60.2	233.3	33.8	327.3
At 27 November 2016	**85.9**	**272.7**	**38.7**	**397.3**

Included within property, plant and equipment is capital work-in-progress for land and buildings of £27.4 million (2015: £31.9 million) and capital work-in-progress for fixtures, fittings, plant and machinery of £22.9 million (2015: £57.5 million).

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 29 November 2015				
Cost	30.3	207.0	54.5	291.8
Accumulated depreciation and impairment	(17.9)	(92.7)	(20.8)	(131.4)
Net book value	12.4	114.3	33.7	160.4
At 27 November 2016				
Cost	**30.9**	**209.8**	**63.5**	**304.2**
Accumulated depreciation and impairment	**(19.5)**	**(110.6)**	**(25.0)**	**(155.1)**
Net Book Value	**11.4**	**99.2**	**38.5**	**149.1**

Property, plant and equipment with a net book value of £19.0 million (2015: £19.9 million) has been pledged as security for the secured loans (Note 4.2).

3.3 Financial Assets

Accounting Policies

Financial Assets

Financial assets comprise available-for-sale financial assets, prepaid fees in relation to financing activities and contribution towards dilapidations.

Available-for-sale financial assets are those non-derivatives that are not designated as held for trading or that are not designated as "at fair value through profit and loss". They are included in non-current assets unless the investment matures or management intend to dispose of it within 12 months of the end of the reporting period. Management consider that the Group's investments fall within this category as explained below.

Prepaid fees in relation to financing activities are recognised when incurred. The prepaid fees are amortised in proportion to the drawdown and utilisation of the underlying facility. Amortisation commenced when the underlying facility was first utilised through to the earlier of the expected refinancing date or end of the term. Any residual of the prepaid fee which is not amortised when the facility is refinanced or repaid will be charged to the Consolidated Income Statement.

Financial assets comprise:

	27 November 2016 £m	29 November 2015 £m
Unlisted equity investment — cost and net book value	0.4	0.4
Prepaid financing fees	0.7	2.5
Contribution towards dilapidation costs	1.5	—
Financial Assets	**2.6**	2.9

Investments

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

The unlisted equity investment comprises a 25% interest in Paneltex Limited ("Paneltex"), a company incorporated in the UK, which has not been treated as an associated undertaking as the Group does not have significant influence over the company. In arriving at this decision, the Board has reviewed the conditions set out in IAS 28 "Investments in Associates" and concluded that despite the size of its holding it is unable to participate in the financial and operating policy decisions of Paneltex due to the position of the majority shareholder as Executive Managing Director. The relationship between the Group and the company is at arm's length.

The shares of Paneltex are not quoted in an active market and their fair value cannot be reliably measured. As such, the investment in Paneltex is measured at cost less accumulated impairment. The Group does not intend to dispose of this investment in the foreseeable future.

Prepaid Financing Fees

The prepaid financing fees are in relation to financing facilities entered into during the previous year. The non-current portion of prepaid finance costs relates to amounts capitalised during the year which will not be amortised to the Consolidated Income Statement within the next 12 months. In line with the utilisation of the facility, £0.6 million has been released from prepayments.

Contribution Towards Dilapidations

A contribution towards dilapidations is due from the former tenant of two leases entered into during the year and will be utilised when dilapidation costs are incurred at the end of the lease.

3.4 Investment in Joint Ventures

Accounting Policies

The Group has assessed the nature of its joint arrangement under IFRS 11 "Joint Arrangements" and determined it to be a joint venture.

The Group's share of the results of joint ventures is included in the Consolidated Income Statement and is accounted for using the equity method of accounting. Investments in joint ventures are carried in the Consolidated Balance Sheet at cost plus post-acquisition changes in the Group's share of the net assets of the entity, less any impairment in value. On transfer of land and/or work-in-progress to joint ventures, the Group recognises only its share of any profits or losses, namely that proportion sold outside the Group.

If the Group's share of losses in a joint venture or associate equals or exceeds its investment in the joint venture or associate, the Group does not recognise further losses, unless it has incurred obligations to do so or made payments on behalf of the joint venture or associate.

Unrealised gains arising from transactions with joint ventures and associates are eliminated to the extent of the Group's interest in the entity.

Notes to the Consolidated Financial Statements

3.4 Investment in Joint Ventures (continued)

Investment in Joint Ventures

The Group has a 50% equity interest valued at £57.1 million (2015: £62.0 million) in MHE JVCo, a joint venture company, incorporated in the UK, in which Morrisons and Ocado Operating Limited, a subsidiary in the Group, are the sole investors. In the current year the Group received a dividend of £8.4 million from MHE JVCo (2015: £8.1 million). The Group injected a £1.1 million capital contribution into MHE JVCo to finance the acquisition of Dordon CFC fixed assets.

The Group's share of profit after tax for the year is detailed as follows:

	27 November 2016 £m	29 November 2015 £m
Group share of revenue	**2.9**	3.1
Group share of expenses, inclusive of tax	**(0.8)**	(0.8)
Group Share of Profit after Tax	**2.1**	2.3

At the period end the Group's share of the net assets of MHE JVCo were valued at £57.1 million (2015: £62.0 million) The principal movements during the year were the £2.1 million Group share of profit after tax, a £1.1 million capital contribution made to MHE JVCo and a dividend of £8.4 million paid by MHE JVCo to the Group.

For the 52 weeks ended 27 November 2016 the entity, MHE JVCo Limited, has recognised net interest income of £5.8 million (2015: £6.2 million). Costs incurred by MHE JVCo include depreciation of £1.6 million (2015: £1.2 million) and a tax charge of £0.3 million (2015: £0.4 million). Material amounts held on its balance sheet as at 27 November 2016 include finance lease receivables of £108.7 million (2015: £119.5 million), £8.6 million of property, plant and equipment (2015: £8.9 million), £0.4 million of cash and cash equivalents (2015: £0.5 million), and £5.3 million of trade and other payables (2015: £5.6 million), contributing towards net assets of £115.5 million (2014: £124.4 million). Other than as a finance lessor to the Group, MHE JVCo has no other significant operations. The principal place of business is the same as for Ocado Group plc, details of which are provided on page 196.

3.5 Business Combinations

Accounting Policies

Business Combinations

The acquisition method of accounting is used for the acquisition of subsidiaries. The cost of the acquisition is measured at the aggregate fair value of the consideration given. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business Combinations" are recognised at their fair value at the date the Group assumes control of the acquiree.

Acquisition related costs are recognised in the Consolidated Income Statement as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement measured at fair value at the date control is achieved. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs.

Investments in Subsidiaries

Investments in subsidiaries held by the Company are carried at cost less accumulated impairment losses. Goodwill is the excess of consideration transferred over the fair value of the identifiable net assets acquired.

There were no investments in new subsidiaries during the 52 weeks to 27 November 2016.

3.6 Working Capital

Accounting Policies

Inventories

Inventories comprise goods held for resale, fuel and other consumable goods. Inventories are valued at the lower of cost and net realisable value as provided in IAS 2 "Inventories". Goods held for resale and consumables are valued using the weighted average cost basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. It also takes into account slow-moving, obsolete and defective inventory. Fuel stocks are valued at calculated average cost. Costs include all direct expenditure and other appropriate attributable costs incurred in bringing inventories to their present location and condition. There has been no security granted over inventory unless stated otherwise.

The Group has a mix of grocery and general merchandise items within inventory which have different characteristics. For example, grocery lines have high inventory turnover, while non-food lines are typically held within inventory for a longer period of time and so run a higher risk of obsolescence. As inventories are carried at the lower of cost and net realisable value, this requires the estimation of the eventual sales price of goods to customers in the future. Judgement is applied when estimating the impact on the carrying value of inventories such as slow-moving, obsolete and defective inventory, which includes reviewing the quantity, age and condition of inventories throughout the year.

3.6 Working Capital (continued)

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets. The Group's loans and receivables are included in "Trade and other Receivables" in the Consolidated Balance Sheet.

Trade and Other Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Other receivables are non-interest bearing and are recognised initially at fair value, and subsequently at amortised cost, reduced by appropriate allowances for estimated irrecoverable amounts.

Provision for Impairment of Trade Receivables

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Any provision made against an impaired receivable is recognised in the Consolidated Income Statement within administrative expenses. Subsequent recoveries of amounts previously written off are credited against this same financial statement caption.

The outcome of an impaired receivable depends on future events which are by their nature uncertain. In assessing the likely outcome, management base their assessment on historical experience and other factors that are believed to be reasonable in the circumstances.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and short-term deposits with a maturity of three months or less at the date of acquisition. Cash at bank and in hand and short-term deposits are shown under current assets on the Consolidated Balance Sheet. The carrying amount of these assets approximates to their fair value. They are therefore included as a component of cash and cash equivalents.

Financial Liabilities and Equity Instruments

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

Trade and Other Payables

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

3.7 Inventories

	27 November 2016 £m	29 November 2015 £m
Goods for resale	38.6	29.4
Consumables	0.5	0.5
	39.1	29.9

Write down of inventories amounted to £0.1 million (2015: write back of £0.2 million) in the Consolidated Income Statement.

3.8 Trade and Other Receivables

	27 November 2016 £m	29 November 2015 £m
Trade receivables	25.8	31.0
Less: provision for impairment of trade receivables	(2.8)	(1.7)
Net trade receivables	23.0	29.3
Other receivables	4.8	4.8
Prepayments	11.6	10.7
Accrued income	20.0	16.0
	59.4	60.8

Included within trade receivables is a balance of £5.3 million (2015: £5.6 million) owed by MHE JVCo.

Included in trade receivables is £5.9 million (2015: £4.3 million) due from suppliers in relation to commercial and media income. As at 1 January 2017 £4.2 million has been received. Included in accrued income is £10.8 million (2015: £9.5 million) to be invoiced to suppliers in relation to supplier funded promotional activity and £7.0 million (2015: £5.5 million) to be invoiced to suppliers in relation to volume-related rebate amounts. As at 1 January 2017 £14.5 million of accrued income has been invoiced.

Notes to the Consolidated Financial Statements

3.8 Trade and Other Receivables (continued)

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

	27 November 2016		29 November 2015	
	Gross £m	Impairment £m	Gross £m	Impairment £m
Not past due	39.5	—	43.8	—
Past due 0–3 months	6.9	(0.2)	8.0	(1.7)
Past due 3–6 months	1.5	(0.4)	—	—
Past due over 6 months	2.7	(2.2)	—	—
	50.6	(2.8)	51.8	(1.7)

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

Trade receivables that are past due but not impaired amount to £4.4 million (2015: £6.3 million) and relate to a number of suppliers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	27 November 2016 £m	29 November 2015 £m
Past due 0–3 months	0.9	6.3
Past due 3–6 months	1.0	—
Past due over 6 months	2.5	—
	4.4	6.3

3.9 Cash and Cash Equivalents

	27 November 2016 £m	29 November 2015 £m
Cash at bank and in hand	50.9	45.8

£4.8 million (2015: £4.7 million) of the Group's cash and cash equivalents are held by the Group's captive insurance company to maintain its solvency requirements. A further £0.2 million (2015: £0.1 million) is held by the trustee of the Group's employee benefit trust in relation to the Ocado Group Sharesave Scheme for employees in Poland. Therefore, these funds are restricted and are not available to circulate within the Group on demand.

3.10 Trade and Other Payables

	27 November 2016 £m	29 November 2015 £m
Trade payables	95.2	63.6
Taxation and social security	6.3	5.8
Accruals and other payables	84.2	74.8
Deferred income	19.9	20.2
	205.6	164.4

Deferred income represents the value of delivery income received under the Ocado Smart Pass scheme allocated to future periods, upfront licence fees from the Morrisons strategic operating agreement, lease incentives, and media income from suppliers which relate to future periods.

3.11 Provisions

Accounting Policies

Provisions are recognised in line with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". Provisions can be distinguished from other types of liability by considering the events that give rise to the obligation and the degree of uncertainty as to the amount or timing of the liability. These are recognised in the Consolidated Balance Sheet when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

The amounts recognised as a provision are management's best estimates of the expenditure to settle present obligations as at Consolidated Balance Sheet date. The outcome depends on future events, which are by their nature uncertain. Any difference between expectations and the actual future liability will be accounted for in the period when this is determined. In assessing the likely outcome, management base their assessment on historical experience and other factors that are believed to be reasonable in the circumstances.

Insurance Claims

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

Dilapidations

Provisions for dilapidations are made in respect of vehicles and properties where there are obligations to return the vehicles and properties to the condition and state they were in when the Group obtained the right to use them. These are recognised on a property-by-property basis and are based on the Group's best estimate of the likely committed cash outflow. Where relevant, these estimated outflows are discounted to net present value.

Employee Incentive Schemes

Provisions for employee incentive schemes relate to HMRC unapproved equity settled schemes, the Beauty Management Incentive plan ("Beauty MIP") and the Cash-Based Long Term Incentive Plan ("Cash LTIP"). For all unapproved schemes and the Cash LTIP, the Group is liable to pay employer's NIC upon allotment of the share awards.

Unapproved schemes are the Long Term Incentive Plan ("LTIP"), the Chairman's Share Matching Award, the Growth Incentive Plan ("GIP") and unapproved Executive Share Ownership Scheme ("ESOS"). For more details on these schemes, refer to note 4.10.

In 2014, the Group established the Cash LTIP in order to incentivise selected high performing employees of the Company. At the end of the three-year vesting period, employees will be paid a cash amount equal to the notional number of awards at the prevailing share price, adjusted for the achievement of the performance conditions.

Provisions

	Insurance Claims £m	Dilapidations £m	Employee Incentive Schemes £m	Total £m
As at 30 November 2014	0.9	3.1	1.6	5.6
Charged/(credited) to the Consolidated Income Statement				
— additional provision	0.9	0.9	2.1	3.9
— unused amounts reversed	(0.4)	—	—	(0.4)
Used during the period	—	(0.1)	—	(0.1)
Unwind of discount	—	0.1	—	0.1
As at 29 November 2015	1.4	4.0	3.7	9.1
Charged/(credited) to the Consolidated Income Statement				
— additional provision	**0.6**	**0.7**	**0.9**	**2.2**
— unused amounts reversed	**(0.4)**	**1.4**	**(0.2)**	**0.8**
Used during the period	**(0.4)**	**(0.1)**	**(1.9)**	**(2.4)**
As at 27 November 2016	**1.2**	**6.0**	**2.5**	**9.7**

Notes to the Consolidated Financial Statements

3.11 Provisions (continued)

Analysis of total provisions as at 29 November 2015

	Insurance Claims £m	Dilapidations £m	Employee Incentive Schemes £m	Total £m
Current	0.5	0.2	2.1	2.8
Non-current	0.9	3.8	1.6	6.3
	1.4	4.0	3.7	9.1

Analysis of total provisions as at 27 November 2016

	Insurance Claims £m	Dilapidations £m	Employee Incentive Schemes £m	Total £m
Current	0.4	1.1	0.9	2.4
Non-current	0.8	4.9	1.6	7.3
	1.2	6.0	2.5	9.7

Insurance Claims

The Ocado Cell uses statistical information built up over several years to estimate, as accurately as possible, the future outturn of the total claims value incurred but not reported as at the balance sheet date. In practice the Ocado Cell receives newly reported claims after the end of the underwriting period that have to be allocated to the year of loss (i.e. the underwriting year of occurrence). The calculation of this provision involves estimating a number of variables, principally the level of claims which may be received and the level of any compensation which may be payable. Uncertainty associated with these factors may result in the ultimate liability being different from the reported provision. Although it is expected that £0.4 million claims will be settled within 12 months of the balance sheet date, the exact timing of utilisation of the provision is uncertain.

Dilapidations

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

The Hatfield CFC lease expires in 2032, the Dordon CFC lease expires in 2038, head office leases expire between 2016 and 2028, with leases for the spokes expiring up to 2068. Contractual amounts are due to be incurred at the end of the respective lease terms.

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

Employee Incentive Schemes

The provision consists of the Cash LTIP, the Beauty MIP and employer's NIC on HMRC unapproved equity-settled schemes.

The Cash LTIP provision represents the expected cash payments to participants upon vesting of the awards. It has been calculated using various assumptions regarding liquidity, participants' retention and achievability of the performance conditions, and valued with reference to the year end share price. If at any point following initial valuation any of these assumptions are revised, the charge will need to be amended accordingly. In addition to the base cost, since this is a cash benefit, the Group will be liable to pay employer's NIC on the value of the cash award on vesting, which is included in the above employer's NIC provision.

To calculate the employer's NIC provision, the applicable employers NIC rate is applied to the number of share awards which are expected to vest, valued with reference to the year end share price. The number of share awards expected to vest is dependent on various assumptions which are determined by management; namely participants' retention rate, the expectation of meeting the performance criteria, if any, and the liquidity discount. All assumptions are supported by historical trends and internal financial forecasts, where appropriate.

For the GIP, an external valuation was carried out to determine the fair value of the awards granted (see Note 4.10 (g)).

If at any point during the life of each share award, any non-market conditions are subject to change, such as the retention rate or the likelihood of the performance condition being met, the number of share awards likely to vest will need to be recalculated which will cause the value of the employer's NIC provision to change accordingly.

Once the share awards under each of the schemes have vested, the provision will be utilised when they are allocated to participants. Vesting will occur between 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.

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[A] as the charge made by the lessor will pass through finance charges and depreciation will be charged on the capitalised asset. Retained earnings may also be affected depending on the relative size of the amounts apportioned to capital repayments and depreciation. IAS 17 "Leases" requires the Group to consider splitting property leases into their component parts (i.e. land and building elements). As only the building elements could be considered as a finance lease, management must make a judgement, based on advice from suitable experts, as to the relative value of the land and buildings.

Finance Leases

Assets funded through finance leases are capitalised either as property, plant and equipment, or intangible assets, as appropriate, and are depreciated/amortised over their estimated useful lives or the lease term, whichever is shorter. The amount capitalised is the lower of the fair value of the asset or the present value of the minimum lease payments during the lease term, measured at the inception of the lease. The resulting lease obligations are included in liabilities, net of attributable transaction costs. Finance costs on finance leases are charged directly to the Consolidated Income Statement on the effective interest rate basis.

Operating Leases

Assets leased under operating leases are not recorded on the Consolidated Balance Sheet. Rental payments are charged directly to the Consolidated Income Statement on a straight-line basis.

Sale and Leaseback

A sale and leaseback transaction is one where the Group sells an asset and immediately reacquires the use of the asset by entering into a lease with the buyer.

The leaseback transaction is classified as a finance lease when the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leasebacks are classified as operating leases.

For sale and finance leasebacks, any profit from the sale is deferred and amortised over the lease term. For sale and operating leasebacks, the assets are expected to be sold at fair value, and accordingly the profit or loss from the sale is recognised immediately in the Consolidated Income Statement.

Lease Incentives

Lease incentives primarily include upfront cash payments or rent-free periods. Lease incentives are capitalised and released against the relevant rental expense over the lease term.

4.2 Borrowings and Finance Leases

	Notes	27 November 2016 £m	29 November 2015 £m
Current Liabilities			
Borrowings	4.2	52.9	1.6
Obligations under finance leases	4.3	29.8	26.5
		82.7	28.1
Non-Current Liabilities			
Borrowings	4.2	6.1	7.7
Obligations under finance leases	4.3	127.0	137.0
		133.1	144.7
Total Borrowings and Finance Leases		215.8	172.8

A See Alternative Performance Measures on page 194

Notes to the Consolidated Financial Statements

4.2 Borrowings and Finance Leases (continued)

Borrowings

	Less Than One Year £m	Between One Year and Two Years £m	Between Two Years and Five Years £m	Total £m
As at 29 November 2015				
Secured loans	1.6	1.5	6.2	9.3
Total Borrowings	1.6	1.5	6.2	9.3
As at 27 November 2016				
Unsecured loans	**51.3**	**—**	**—**	**51.3**
Secured loans	**1.6**	**6.1**	**—**	**7.7**
Total Borrowings	**52.9**	**6.1**	**—**	**59.0**

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

Principal amount £m	Inception	Security Held	Current Interest Rate	Instalment Frequency	Final Payment Due	Carrying Amount as at 27 November 2016 £m	Carrying Amount as at 29 November 2015 £m
210.0	July 2014	None	LIBOR + 1.5%	Monthly	July 2019[2]	**51.3**	—
2.5	July 2014	Property, plant and equipment	9.12%[1]	Monthly	July 2017	**0.5**	1.1
8.2	September 2015	Freehold Property	LIBOR + 1.5%	Quarterly	September 2018	**7.2**	8.2
						59.0	9.3
Disclosed as:							
Current						**52.9**	1.6
Non-current						**6.1**	7.7
						59.0	9.3

1. Calculated as the effective interest rate, the calculation of which includes an optional balloon payment at the end of the term.
2. Date of expiry of facility

In the previous year, the unsecured three-year £100 million revolving facility was extended by a further two years and the amount of the facility was increased to £210 million. As at 27 November 2016, £52.5 million of the facility had been utilised, net of transaction fees. The Group regularly reviews its financing arrangements. The facility contains typical restrictions concerning dividend payments and additional debt and leases.

4.3 Obligations Under Finance Leases

	27 November 2016 £m	29 November 2015 £m
Obligations under finance leases due:		
Within one year	**29.8**	26.5
Between one and two years	**25.8**	23.8
Between two and five years	**66.4**	62.1
After five years	**34.8**	51.1
Total obligations under finance leases	**156.8**	163.5

External obligations under finance leases are £48.1 million (2015: £44.0 million) excluding £108.7 million (2015: £119.5 million) payable to MHE JVCo, a joint venture company.

4.3 Obligations Under Finance Leases (continued)

	27 November 2016 £m	29 November 2015 £m
Minimum lease payments due:		
Within one year	38.4	34.8
Between one and two years	31.7	30.3
Between two and five years	76.9	75.0
After five years	36.8	55.3
	183.8	195.4
Less: future finance charges	(27.0)	(31.9)
Present value of finance lease liabilities	156.8	163.5
Disclosed as:		
Current	29.8	26.5
Non-current	127.0	137.0
	156.8	163.5

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	27 November 2016 £m	29 November 2015 £m
Current Assets			
Cash and cash equivalents	3.9	50.9	45.8
Current Liabilities			
Borrowings	4.2	(52.9)	(1.6)
Obligations under finance leases	4.2	(29.8)	(26.5)
		(82.7)	(28.1)
Non-Current Liabilities			
Borrowings	4.2	(6.1)	(7.7)
Obligations under finance leases	4.2	(127.0)	(137.0)
		(133.1)	(144.7)
Total Net Debt		(164.9)	(127.0)

Net debt is £56.2 million (2015: £7.5 million), excluding finance lease obligations of £108.7 million (2015: £119.5 million) payable to MHE JVCo, a joint venture company. £5.0 million (2015: £4.8 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

	27 November 2016 £m	29 November 2015 £m
Net increase/(decrease) in cash and cash equivalents	5.1	(30.5)
Net (increase)/decrease in debt and lease financing	(23.4)	24.3
Non-cash movements:		
— Assets acquired under finance lease	(19.6)	(21.4)
Movement in Net Debt in the Period	(37.9)	(27.6)
Opening net debt	(127.0)	(99.4)
Closing Net Debt	(164.9)	(127.0)

A See Alternative Performance Measures on page 194

Notes to the Consolidated Financial Statements

4.5 Finance Income and Costs

Accounting Policies

Borrowing Costs

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

Finance Income and Costs

Interest income is accounted for on an accruals basis using the effective interest method. Finance costs comprise obligations on finance leases and borrowings and are recognised in the period in which they fall due.

	52 Weeks Ended 27 November 2016 £m	52 Weeks Ended 29 November 2015 £m
Interest on cash balances	0.2	0.2
Finance Income	**0.2**	0.2
Borrowing costs		
— Obligations under finance leases	(9.4)	(8.8)
— Borrowings	(0.3)	(0.6)
Fair value movement in derivatives	—	(0.2)
Fair value movement on provisions	—	(0.1)
Finance Costs	**(9.7)**	(9.7)
Net Finance Costs	**(9.5)**	(9.5)

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 27 November 2016 and at 29 November 2015, the Group's derivative financial instruments consisted of commodity swap contracts which are designated as cash flow hedges of highly probable transactions.

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

This assessment is performed retrospectively at each financial reporting period. Movements on the hedging reserve within shareholders' equity are shown in the Consolidated statement of comprehensive income. The full fair value of hedging derivatives is classified as current when the remaining maturity of the hedged item is less than 12 months.

Cash Flow Hedging

The effective portion of changes in the fair value of derivatives that are designated as cash flow hedges and qualify for hedge accounting is recognised in other comprehensive income. Amounts accumulated through other comprehensive income are recycled in the Consolidated Income Statement in the periods when the hedged item affects profit or loss. When the hedged forecast transaction results in the recognition of property, plant and equipment, the gains or losses previously deferred in equity are included in the initial cost of the asset and are ultimately recognised in profit or loss within the depreciation expense. During the period all of the Group's cash flow hedges were effective and there is therefore no ineffective portion recognised in profit or loss.

Commodity Swap Contracts

The notional principal amounts of the outstanding commodity swap contracts at 27 November 2016 were £4.8 million (2015: £3.2 million). The hedged highly probable forecast transactions are expected to occur at various dates during the next 12 months. Cumulative net gains of £0.6 million have been recognised in the hedging reserve within other comprehensive income. The net balance at year end was £nil. These gains and losses are recognised in the Consolidated Income Statement in periods during which the hedged forecast transaction affects the Consolidated Income Statement.

4.6 Derivative Financial Instruments (continued)

	27 November 2016 £m	29 November 2015 £m
Commodity swap contracts		
Derivative asset	**0.3**	—
Derivative liability	**(0.2)**	(0.7)
	0.1	(0.7)

Forward Foreign Exchange Contracts

There were no outstanding forward foreign exchange contracts at 27 November 2016 and 29 November 2015 .

There are £0.1 million of gains recognised in the hedging reserve within Other Comprehensive Income (2015: £0.2 million).

These gains were recognised in the income statement in periods during which the hedged forecast transaction affected the Consolidated Income Statement.

4.7 Financial Instruments

Accounting Policies

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

The Group classifies its financial instruments in the following categories:

- Available-for-sale;
- Loans and receivables;
- Other financial liabilities at amortised cost; and
- Financial assets and liabilities at fair value through profit or loss.

The classification depends on the purpose for which the financial assets and liabilities were acquired. Management determine the classification of their financial instruments at initial recognition or in certain circumstances on modification.

Offsetting Financial Instruments

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

Impairment of Financial Assets

Assets Carried at Amortised Cost

The Group assesses whether there is objective evidence that a financial asset is impaired at the end of each reporting period. A financial asset is impaired and an impairment loss recognised if there is objective evidence of impairment as a result of a loss event that occurred after the initial recognition of the asset and the loss event has an impact on the estimated future cash flows of the financial assets that can be reliably estimated. The criteria that the Group uses to determine that there is objective evidence of an impairment loss include but are not limited to:

- Financial difficulty indicators;
- Breach of contract such as missed payments;
- Fraud;
- Bankruptcy; and
- Disappearance of an active market.

The amount of the loss is measured as the difference between the asset's carrying value and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The asset's carrying value is reduced and the loss recognised in the Consolidated Income Statement.

If, in a subsequent period, the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the Consolidated Income Statement.

Available-For-Sale Financial Assets

Equity investments classified as available-for-sale and held at cost are reviewed annually to identify if an impairment loss has occurred. The amount of the impairment loss is measured as the difference between the carrying value of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses recognised in the Consolidated Income Statement on equity investments are not reversed.

Notes to the Consolidated Financial Statements

4.7 Financial Instruments (continued)

Fair Value of Financial Instruments

Financial instruments carried at fair value in the Consolidated Balance Sheet comprise the derivative assets and liabilities — see Note 4.6. The Group uses the following hierarchy for determining and disclosing the fair value of these financial instruments:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices that are observable for the asset and liability, either directly or indirectly (level 2);
- Inputs for the assets or liabilities that are not based on observable market data (level 3).

The Group's derivative assets and liabilities 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:

		27 November 2016		29 November 2015	
	Notes	Carrying Value £'000	Fair Value £'000	Carrying Value £'000	Fair Value £'000
Financial Assets					
Cash and cash equivalents	3.9	**50.9**	**50.9**	45.8	45.8
Trade receivables	3.8	**23.0**	**23.0**	29.3	29.3
Other receivables (incl. accrued income, excl. prepayments)	3.8	**24.8**	**24.8**	20.8	20.8
Non-current financial assets	3.3	**2.6**	**2.6**	2.8	2.8
Derivative assets	4.6	**0.3**	**0.3**	—	—
Total financial assets		**101.6**	**101.6**	98.7	98.7
Financial Liabilities					
Trade payables	3.10	**(95.2)**	**(95.2)**	(63.6)	(63.6)
Accruals and other payables	3.10	**(84.2)**	**(84.2)**	(74.8)	(74.8)
Borrowings	4.2	**(59.0)**	**(59.0)**	(9.3)	(9.3)
Finance lease obligations	4.3	**(156.8)**	**(156.8)**	(163.5)	(163.5)
Derivative liabilities	4.6	**(0.2)**	**(0.2)**	(0.7)	(0.7)
Total financial liabilities		**(395.4)**	**(395.4)**	(311.9)	(311.9)

The derivative assets and liabilities relate to forward commodity swap contracts.

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

The fair values of cash and cash equivalents, receivables, payables and accruals of a maturity of less than one financial period are assumed to approximate to their carrying values but for completeness are included in this analysis.

The 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 2.8% (2015: 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.

4.7 Financial Instruments (continued)

The Group has categorised its financial instruments as follows:

	Notes	Available-for-Sale £m	Loans and Receivables £m	Financial Liabilities at Amortised Cost £m	Financial Liabilities at Fair Value Through Profit and Loss £m	Total £m
As at 29 November 2015						
Financial Assets as per the Consolidated Balance Sheet						
Cash and cash equivalents	3.9	—	45.8	—	—	45.8
Trade and other receivables (excluding prepayments)	3.8	—	50.1	—	—	50.1
Financial assets	3.3	2.8	—	—	—	2.8
Total		2.8	95.9	—	—	98.7
Financial Liabilities as per the Consolidated Balance Sheet						
Trade payables	3.10	—	—	(63.6)	—	(63.6)
Accruals	3.10	—	—	(74.8)	—	(74.8)
Borrowings	4.2	—	—	(9.3)	—	(9.3)
Obligations under finance leases	4.3	—	—	(163.5)	—	(163.5)
Derivative liabilities	4.6	—	—	—	(0.7)	(0.7)
Total		—	—	(311.2)	(0.7)	(311.9)

	Notes	**Available-for-Sale £m**	**Loans and Receivables £m**	**Financial Liabilities at Amortised Cost £m**	**Financial Liabilities at Fair Value Through Profit and Loss £m**	**Total £m**
As at 27 November 2016						
Financial Assets as per the Consolidated Balance Sheet						
Cash and cash equivalents	3.9	**—**	**50.9**	**—**	**—**	**50.9**
Trade and other receivables (excluding prepayments)	3.8	**—**	**47.8**	**—**	**—**	**47.8**
Financial assets	3.3	**2.6**	**—**	**—**	**—**	**2.6**
Derivative assets	4.6	**—**	**—**	**—**	**0.3**	**0.3**
Total		**2.6**	**98.7**	**—**	**0.3**	**101.6**
Financial Liabilities as per the Consolidated Balance Sheet						
Trade payables	3.10	**—**	**—**	**(95.2)**	**—**	**(95.2)**
Accruals and other payables	3.10	**—**	**—**	**(84.2)**	**—**	**(84.2)**
Borrowings	4.2	**—**	**—**	**(59.0)**	**—**	**(59.0)**
Obligations under finance leases	4.3	**—**	**—**	**(156.8)**	**—**	**(156.8)**
Derivative liabilities	4.6	**—**	**—**	**—**	**(0.2)**	**(0.2)**
Total		**—**	**—**	**(395.2)**	**(0.2)**	**(395.4)**

Notes to the Consolidated Financial Statements

4.8 Financial Risk Management

Overview

The Group's financial instruments comprise trade receivables and payables, borrowings and finance leases, cash and cash equivalents, and derivatives. The main financial risks faced by the Group relate to the risk of default by counterparties following financial transactions, the availability of funds for the Group to meet its obligations as they fall due and fluctuations in interest and foreign exchange rates.

The management of these risks is set out below.

Credit Risk

The Group's exposures to credit risk arise from holdings of cash and cash equivalents, trade and other receivables (excluding prepayments) and derivative assets. The carrying value of these financial assets, as set out in Note 4.7, represents the maximum credit exposure. No collateral is held as security against these assets.

Cash and Cash Equivalents

The Group's exposure to credit risk on cash and cash equivalents is managed by investing in banks and financial institutions with strong credit ratings and by regular review of counterparty risk.

Trade and Other Receivables

Trade and other receivables at the period end comprise mainly monies due from suppliers, which are considered of a good credit quality, as well as VAT receivables. The Group provides for doubtful receivables in respect of monies due from suppliers.

The Group has very low retail credit risk due to transactions being principally of a high volume, low value and short maturity. The Group has effective controls over this area. The Group has allowed for doubtful receivables in respect of consumer sales by reviewing the ageing profile and, based on prior experience, assessing the recoverability of overdue balances.

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

	Notes	27 November 2016 £m	29 November 2015 £m
At the beginning of the period		**(1.7)**	(3.0)
Provision for impairment of receivables		**(1.1)**	(0.9)
Uncollectable amounts written off		**(0.8)**	(0.6)
Recovery of amounts previously provided		**0.8**	2.8
At the end of the period	3.8	**(2.8)**	(1.7)

The Group has adequate cash resources to manage the short-term working capital needs of the business. In the prior year the three-year £100 million revolving facility was extended by a further two years and the amount of the facility was increased to £210 million. As at 27 November 2016, £52.5 million of the facility had been utilised. The Group regularly reviews its financing arrangements. For further details of the review please refer to the Group's Viability Statement on page 35.

The Group monitors its liquidity requirements to ensure it has sufficient cash to meet operational needs. For further details see Note 4.11.

4.8 Financial Risk Management (continued)

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

	Notes	Carrying Value £m	Contractual Cash Flows £m	1 Year or Less £m	1–2 Years £m	2–5 Years £m	More Than 5 Years £m
Financial Liabilities							
Trade payables	3.10	(63.6)	(63.6)	(63.6)	—	—	—
Accruals	3.10	(74.8)	(74.8)	(74.8)	—	—	—
Borrowings	4.2	(9.3)	(9.7)	(1.8)	(1.7)	(6.2)	—
Obligations under finance leases	4.3	(163.5)	(195.4)	(34.8)	(30.3)	(75.0)	(55.3)
Derivative liabilities	4.6	(0.7)	(0.7)	(0.7)	—	—	—
29 November 2015		(311.9)	(344.2)	(175.7)	(32.0)	(81.2)	(55.3)

	Notes	**Carrying Value £m**	**Contractual Cash Flows £m**	**1 Year or Less £m**	**1–2 Years £m**	**2–5 Years £m**	**More Than 5 Years £m**
Financial Liabilities							
Trade payables	3.10	**(95.2)**	**(95.2)**	**(95.2)**	—	—	—
Accruals and other payables	3.10	**(84.2)**	**(84.2)**	**(84.2)**	—	—	—
Borrowings	4.2	**(59.0)**	**(59.0)**	**(52.9)**	**(6.1)**	—	—
Obligations under finance leases	4.3	**(156.8)**	**(183.8)**	**(38.4)**	**(31.7)**	**(76.9)**	**(36.8)**
Derivative liabilities	4.6	**(0.2)**	**(0.2)**	**(0.2)**	—	—	—
27 November 2016		**(395.4)**	**(422.4)**	**(270.9)**	**(37.8)**	**(76.9)**	**(36.8)**

Market Risk

Currency Risk

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

Foreign currency trade payables arise principally on purchases of plant and equipment, primarily in relation to the Euro, Polish Zloty and US Dollar. Bank accounts are maintained in these foreign currencies in order to minimise the Group's exposure to fluctuations in the currency relating to current and future purchases of plant and equipment.

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

	27 November 2016 £m	29 November 2015 £m
Cash and cash equivalents – EUR	**0.2**	0.4
Cash and cash equivalents – PLN	**2.0**	0.4
Trade payables at period end – EUR	**(0.2)**	(0.2)
Trade payables at period end – PLN	**(0.1)**	(0.1)
Trade payables at period end – USD	**(0.1)**	(0.2)
	1.8	0.3

Notes to the Consolidated Financial Statements

4.8 Financial Risk Management (continued)

The table below shows the Group's sensitivity to changes in foreign exchange rates on its financial instruments denominated in foreign currencies.

	27 November 2016		29 November 2015	
	Increase/ (Decrease) in Income £m	Increase/ (Decrease) in Equity £m	Increase/ (Decrease) in Income £m	Increase/ (Decrease) in Equity £m
10% appreciation of the above foreign currencies	0.2	—	(0.1)	—
10% depreciation of the above foreign currencies	(0.2)	—	0.1	—

A movement of the euro, as indicated, against sterling at 27 November 2016 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:

	27 November 2016 £m	29 November 2015 £m
Fixed Rate Instruments		
Financial assets	50.7	41.6
Financial liabilities	(156.8)	(163.4)
Variable Rate Instruments		
Financial assets	0.2	4.2
Financial liabilities	(59.0)	(9.2)

Sensitivity Analysis

An increase of 100 basis points (1.0%) in interest rates would impact equity and profit or loss by the amounts shown below. A rate of 100 basis points was assessed as being appropriate, considering the current short-term interest rate outlook. The calculation applies the increase to average floating rate interest bearing borrowings and cash and cash equivalents existing during the period. This analysis assumes that all other variables remain constant and considers the effect on financial instruments with variable interest rates.

	27 November 2016 £m	29 November 2015 £m
Equity		
Result	—	—
Income		
Loss	(0.6)	—

4.9 Share Capital and Reserves

Accounting Policy

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

Share Capital and Reserves

As at 27 November 2016, the number of ordinary shares available for issue under the Block Listing Facilities was 13,318,184 (2015: 14,620,308). These ordinary shares will only be issued and allotted when the shares under the relevant share incentive plan have vested or the share options under the Group's executive share ownership scheme and non-employee share options and Sharesave schemes have been exercised. They are therefore not included in the total number of ordinary shares outstanding below.

4.9 Share Capital and Reserves (continued)

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 30 November 2014	620.9	12.5	255.1
Issues of ordinary shares	0.6	—	0.5
Reacquisition of interest in treasury shares	—	—	(0.8)
Allotted in respect of share option schemes	3.9	0.1	3.9
At 29 November 2015	625.4	12.6	258.7
Issues of ordinary shares	**3.4**	**—**	**0.6**
Disposal of treasury shares	**—**	**—**	**(2.9)**
Allotted in respect of share option schemes	**0.4**	**—**	**0.5**
At 27 November 2016	**629.2**	**12.6**	**256.9**

Included in the total number of ordinary shares outstanding above are 32,830,613 (2015: 34,770,981) ordinary shares held by the Group's employee benefit trust (see Note 4.10(b)). The ordinary shares held by the trustee of the Group's employee benefit trust pursuant to the JSOS are treated as treasury shares in the Consolidated Balance Sheet in accordance with IAS 32 "Financial Instruments: Presentation". These ordinary shares have voting rights but these have been waived by the trustee (although the trustee may vote in respect of shares that have vested and remain in the trust). The number of allotted, called up and fully paid shares, excluding treasury shares, at the end of each period differs from that used in the basic earnings per share calculation in Note 2.9 as basic earnings per share is calculated using the weighted average number of ordinary shares in issue during the period, excluding treasury shares.

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

	Notes	Treasury Shares Reserve £m	Reverse Acquisition Reserve £m	Fair Value Reserve £m
At 30 November 2014		(51.8)	(116.2)	(0.3)
Movement on derivative financial instruments	4.9(b)	—	—	(0.5)
Disposal of treasury shares	4.9(a)	0.1	—	—
Reacquisition of interests in treasury shares	4.9(a)	0.8	—	—
At 29 November 2015		(50.9)	(116.2)	(0.8)
Movement on derivative financial instruments	4.9(b)	**—**	**—**	**0.7**
Translation of foreign subsidiary		**—**	**—**	**0.3**
Disposal of treasury shares	4.9(a)	**2.9**	**—**	**—**
At 27 November 2016		**(48.0)**	**(116.2)**	**0.2**

(a) Treasury Shares Reserve

This reserve arose when the Group issued equity share capital under its JSOS, which is held in trust by the trustee of the Group's employee benefit trust. Treasury shares cease to be accounted for as such when they are sold outside the Group or the interest is transferred in full to the participant pursuant to the terms of the JSOS. Participant interests in unexercised shares held by participants are not included in the calculation of treasury shares; unvested interests of leavers which have been reacquired by the Group's employee benefit trust during the period are not accounted for as treasury shares. See Note 4.10(b) for more information on the JSOS.

The disposal of treasury shares in the current period relates to the utilisation of 1,915,040 JSOS interests to part-satisfy the 2013 LTIP award which vested in the period. These interests, which were held by the Employee Benefit Trust on an unallocated basis, were held at a cost of £1.50 per interest. A further 2,500,000 shares were issued at nominal value to satisfy the award. As the 2013 LTIP award was a nil cost share award, there was no consideration received from the participants in return for these interests and hence a loss on disposal of £2.9m was realised on the transaction. This loss was transferred to the share premium account on consolidation

(b) Other Reserves

The fair value reserve comprises gains and losses on movements in the Group's cash flow hedges, which consist of commodity swaps and foreign currency hedges.

The acquisition by the Company of the entire issued share capital in 2010 of Ocado Limited was accounted for as a reverse acquisition under IFRS 3 (revised). Consequently, the previously recognised book values and assets and liabilities have been retained and the consolidated financial information for the period to 27 November 2016 has been presented as if the Company had always been the parent company of the Group.

Notes to the Consolidated Financial Statements

4.10 Share Options and Other Equity Instruments

Accounting Policies

Employee Benefits

Employees (including Directors) of the Group receive part of their remuneration in the form of share-based payments, whereby, depending on the scheme, employees render services in exchange for rights over shares ("equity-settled transactions") or entitlement to a future cash payment ("cash-settled transactions").

The cost of equity-settled transactions with employees is measured, where appropriate, with reference to the fair value at the date on which they are granted. Where options need to be valued an appropriate valuation model is applied. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The cost of cash-settled transactions is measured with reference to the fair value of the liability, which is taken to be the closing price of the Company's shares. Until the liability is settled it is remeasured at the end of each reporting period and at the date of settlement, with any changes in the fair value being recognised in the Consolidated Income Statement for the period. For more details please refer to Note 3.11 Provisions – Employee incentive schemes.

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

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

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

The Group has exposure in respect of cash-settled share-based payment transactions and share-based payment transactions with cash alternatives as defined by IFRS 2 "Share-Based Payment" in respect of bad leaver provisions in the Group's JSOS, the Cash LTIP and the Beauty MIP (see Note 3.11 Provisions). National insurance contribution (NIC) obligations arising from cash-settled schemes and HMRC unapproved equity-settled schemes are treated as if they are cash settled, regardless of the actual cash/equity determination of the scheme itself.

Share Options and Other Equity Instruments

The Group operates various employee share incentive schemes, namely the Executive Share Ownership Scheme (the "ESOS"), the Joint Share Ownership Scheme (the "JSOS"), the Sharesave Scheme, the Long Term Incentive Plan ("LTIP"), the Growth Incentive Plan ("GIP") and the share incentive plan ("SIP"). The Group also operates two cash-settled incentive schemes, the Cash LTIP and the Beauty MIP.

The total expense for the period relating to employee share-based payment plans was £7.1 million (2015: £9.9 million), of which £6.4 million (2015: £7.8 million) related to equity-settled share-based payment transactions and £0.7 million (2015: £2.1 million) as a provision for the payment of employers' NIC upon allotment of HMRC unapproved equity-settled share schemes, the Cash LTIP and the Beauty MIP (see Note 3.11 Provisions for further details).

(a) ESOS

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

Under the ESOS, Ocado or the trustees of an employee trust may grant options over shares in the Company to eligible employees. The eligible employees to whom options are granted and the terms of such options will be determined by the Directors of Ocado or the trustees. The employees who are eligible to participate in the ESOS are all Ocado's Executive Directors and employees, including the employees of the Company's subsidiaries. Options are not transferable. The exercise price of options may not be less than the market value of the Company's shares on the date of grant. If the trustees or the Directors have determined that the exercise of an option will be satisfied by the issue of ordinary shares, the exercise price may also not be less than the nominal value of ordinary shares.

The Directors of Ocado or the trustees may impose a performance target and any further condition determined to be appropriate on the exercise of an option. In most cases any performance target must be measured over a period of at least three years. There are currently no options granted which are subject to performance targets that have not yet been met. The vesting period for the ESOS is three years. If the options remain unexercised after a period of ten years from the date of grant or the employee leaves the Group, the options expire (subject to a limited number of exceptions).

4.10 Share Options and Other Equity Instruments (continued)

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

	Year of Issue	27 November 2016	Exercise Price (£)	29 November 2015	Exercise Price (£)	Exercise Period
Approved						
	2006	—	1.40	2,298	1.40	31/05/09–30/05/16
	2006	2,073	1.50	4,920	1.50	30/11/09–29/11/16
	2007	54,534	1.50	59,901	1.50	31/05/10–29/11/17
	2008	22,420	1.35	24,134	1.35	31/05/11–30/05/18
	2008	22,891	1.20	28,123	1.20	30/11/11–29/11/18
	2009	32,173	1.20	34,121	1.20	31/05/12–30/05/19
	2009	116,647	1.35	140,097	1.35	02/11/12–29/11/19
	2010	172,265	1.65	191,579	1.65	30/06/13–29/06/20
	2011	60,871	1.89	78,221	1.89	19/07/14–18/07/21
	2011	185,460	2.55	200,629	2.55	14/02/14–13/02/21
	2012	153,824	0.85	186,535	0.85	27/06/15–26/06/22
	2012	241,217	1.03	297,763	1.03	21/02/15–13/02/22
	2012	486,212	1.05	571,661	1.05	09/03/15–08/03/22
	2013	323,383	1.28	532,640	1.28	05/03/16–04/03/23
	2013	133,312	3.02	156,894	3.02	08/07/16–07/07/23
	2014	45,656	5.10	53,553	5.10	05/02/17–04/02/24
	2014	379,030	4.84	415,951	4.84	17/03/17–16/03/24
	2015	394,350	3.77	459,138	3.77	13/03/18–12/03/25
	2015	22,980	4.46	22,980	4.46	01/07/18–30/06/25
	2015	35,439	4.39	45,448	4.39	10/07/18–09/07//25
	2016	597,596	2.70	—	—	16/03/19–15/03/26
	2016	31,968	2.59	—	—	15/07/19–14/07/26
Total Approved Options		3,514,301		3,506,586		
Non-Approved						
	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	119,088	1.05	124,126	1.05	09/03/15–08/03/22
	2014	11,578	3.27	12,030	3.27	08/08/17–07/08/24
	2014	29,962	3.36	29,962	3.36	01/08/17–31/07/24
	2014	23,945	4.84	24,516	4.84	17/03/17–16/03/24
	2015	30,901	3.77	30,901	3.77	13/03/18–12/03/25
	2015	18,172	4.46	18,622	4.46	01/07/18–30/06/25
	2015	18,803	4.39	19,649	4.39	10/07/18–09/07/25
	2016	152,922	2.70	—	—	16/03/19–15/03/26
	2016	63,532	2.59	—	—	15/07/19–14/07/26
Total Non-Approved Options		642,336		433,239		
Total		4,156,637		3,939,825		

Notes to the Consolidated Financial Statements

4.10 Share Options and Other Equity Instruments (continued)

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

	Year of Issue	27 November 2016 Number of Share Options	27 November 2016 Exercise Price (£)	29 November 2015 Number of Share Options	29 November 2015 Exercise Price (£)	Exercise Period
	2009	139,600	1.20	139,600	1.20	31/05/12 – 30/05/19
Total options subject to performance criteria		139,600		139,600		

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

	27 November 2016 Number of Share Options	27 November 2016 Weighted Average Exercise Price (£)	29 November 2015 Number of Share Options	29 November 2015 Weighted Average Exercise Price (£)
Outstanding at the beginning of the period	3,939,825	2.24	5,158,305	1.73
Granted during the period	899,687	2.69	638,176	3.88
Forfeited during the period	(272,688)	3.04	(366,445)	2.29
Exercised during the period	(410,187)	1.25	(1,490,211)	1.18
Outstanding at the end of the period	4,156,637	2.38	3,939,825	2.24
Exercisable at the end of the period	2,299,803	1.42	2,117,541	1.32

Since the Company's Admission, the market value of the Company's shares at each option grant date was taken to be the closing mid-market price of the shares on the day prior to issuance. Prior to the Admission, the market value of the Company's shares was derived based on the market value of similar companies and by taking into account transactions with shareholders during the relevant period. The Share Valuation Office of HMRC has confirmed in correspondence that in respect of options granted prior to Admission, the exercise price was not less than the market value of the Company's shares at each option grant date.

For exercises during the period, the weighted average share price at the date of exercise was £2.84 (2015: £3.89).

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

	27 November 2016	29 November 2015
Weighted average share price	£2.69	£3.88
Weighted average exercise price	£2.69	£3.88
Expected volatility	0.40	0.40
Weighted expected life — years	3.00	3.00
Weighted average risk-free interest rate	0.5%	0.8%
Expected dividend yield	0.0%	0.0%

Given the immaturity of the Company's share history, the expected volatility was determined by considering the historic performance of the shares of a 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, apart from employer's NIC due on unapproved ESOS awards which is treated as cash-settled.

A See Alternative Performance Measures on page 194

4.10 Share Options and Other Equity Instruments (continued)

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

	27 November 2016			29 November 2015		
	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	**153,824**	**5.5**	0.85	186,535	6.6
	1.03	**241,217**	**5.2**	1.03	297,763	6.2
	1.05	**605,300**	**5.3**	1.05	695,787	6.3
	1.20	**177,664**	**2.5**	1.20	184,844	3.4
	1.28	**323,383**	**6.3**	1.28	532,640	7.3
	1.35	**139,067**	**2.8**	1.35	164,231	3.8
	1.40	**—**	**—**	1.40	2,298	0.5
	1.50	**107,440**	**0.6**	1.50	115,654	1.5
	1.65	**172,265**	**3.6**	1.65	191,579	4.6
	1.89	**60,871**	**4.6**	1.89	78,221	5.6
	2.55	**185,460**	**4.2**	2.55	200,629	5.2
	3.02	**133,312**	**6.6**	3.02	156,894	7.6
	3.27	**11,578**	**7.7**	3.27	12,030	8.7
	3.36	**29,962**	**7.7**	3.36	29,962	8.7
	3.77	**425,251**	**8.3**	3.77	490,039	9.3
	4.39	**54,242**	**8.6**	4.39	65,097	9.6
	4.46	**41,152**	**8.6**	4.46	41,602	9.6
	4.84	**402,975**	**7.3**	4.84	440,467	8.3
	5.10	**45,656**	**7.2**	5.10	53,553	8.2
	2.59	**95,500**	**9.6**	—	—	—
	2.70	**750,518**	**9.3**	—	—	—
Outstanding at the end of the period		**4,156,637**			3,939,825	

(b) JSOS

The JSOS is an executive incentive scheme which was introduced to incentivise and retain its Executive Directors and select members of senior management of the Group (the "Participants"). It is a share ownership scheme under which the Participants and Estera Trust (Jersey) Limited, the Employee Benefit Trust Trustee, held at the balance sheet date separate beneficial interests in 32,830,613 (2015: 34,770,981) ordinary shares which represents 5.2% (2015: 5.6%) of the issued share capital of the Company. Of these ordinary shares, 79,032 (2015: 1,994,071) 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.

Participants

In prior periods, Interests were acquired by the Participants under the first JSOS scheme ("JSOS1") in 32,476,700 Shares at an issue price of £1.50 per share, and the second group of Participants' JSOS scheme ("JSOS2") in 3,990,799 Shares at an issue price of £1.70 per share. In prior periods, 2,953,675 Shares in which interests of Participants have lapsed were reallocated to the third group of Participants under the JSOS scheme ("JSOS3"). For JSOS1 and JSOS2 there are four tranches, each with their own hurdle price. For JSOS3 there are two tranches, each with their own hurdle price.

JSOS1				JSOS2				JSOS3			
Tranche	Vesting Date	Hurdle Value	% of Issue Price	Tranche	Vesting Date	Hurdle Value	% of Issue Price	Tranche	Vesting Date	Hurdle Value	% of Market Price
1 (2011)	Jan 2011	£1.73	115%	1 (2012)	Jun 2012	£1.96	115%	1 (2013)	Jan 2013	£1.70	230% — 265%
2 (2012)	Jan 2012	£1.91	127%	2 (2013)	Jun 2013	£2.15	127%	2 (2014)	Jan 2014	£1.80	244% — 280%
3 (2013)	Jan 2013	£2.08	139%	3 (2014)	Jun 2014	£2.36	139%	—	—	—	—
4 (2014)	Jan 2014	£2.28	152%	4 (2015)	Jun 2015	£2.59	152%	—	—	—	—

Notes to the Consolidated Financial Statements

4.10 Share Options and Other Equity Instruments (continued)

For JSOS1, Participants were required to purchase their Interest for 2.0% of the issue price. For JSOS2, the price was in a range of 7.1% to 10.8%, and for JSOS3, the price was in a range of 1.47% to 1.70% of the share price at date of issue. When an Interest vests, the Employee Benefit Trust Trustee will transfer Shares to the Participant of equal value to the Participant's Interest or the Shares will be sold and the Employee Benefit Trust Trustee will account to the Participant for the balance, i.e. the difference between the sale proceeds (less expenses) and the hurdle price.

Vesting Conditions

The vesting of the Interests granted to Participants is subject to a time vesting condition, as detailed above.

The fair value of the Interests awarded under the JSOS was determined using the Black–Scholes Option Pricing Model. As per IFRS 2 "Share-Based Payment", market-based vesting conditions and the share price target conditions in the JSOS have been taken into account in establishing the fair value of the equity instruments granted. Other non-market or performance-related conditions were not taken into account in establishing the fair value of equity instruments granted; instead, these non-market vesting conditions are taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount so that ultimately the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that will eventually vest.

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

JSOS1	Tranche 1	Tranche 2	Tranche 3	Tranche 4
Weighted average share price	£1.35	£1.35	£1.35	£1.35
Weighted average exercise price	£1.73	£1.91	£2.08	£2.28
Expected volatility	0.25	0.25	0.25	0.25
Weighted expected life — years	0.91	1.91	2.91	3.91
Risk-free interest rate	3.5%	3.5%	3.5%	3.5%
Expected dividend yield	0.0%	0.0%	0.0%	0.0%

JSOS2	Tranche 1	Tranche 2	Tranche 3	Tranche 4
Weighted average share price	£1.70	£1.70	£1.70	£1.70
Weighted average exercise price	£1.96	£2.15	£2.36	£2.59
Expected volatility	0.25	0.25	0.25	0.25
Weighted expected life — years	1.0	2.0	3.0	4.0
Risk-free interest rate	3.5%	3.5%	3.5%	3.5%
Expected dividend yield	0.0%	0.0%	0.0%	0.0%

Expected volatility was determined by comparing the Company to a basket of others of a similar size or which operate in a similar industry.

As the Interests in JSOS3 were reallocated from lapsed Interests in JSOS1 and JSOS2, the fair value of those Interests had been calculated in prior periods using the inputs disclosed in the tables above.

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

	27 November 2016		29 November 2015	
	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	**32,776,910**	**1.99**	33,357,307	2.00
Forfeited during the period	**—**	**—**	(540,817)	2.29
Exercised during the period	**(25,329)**	**2.05**	(39,580)	2.32
Outstanding at the end of the period	**32,751,581**	**1.99**	32,776,910	1.99
Exercisable at the end of the period	**32,751,581**	**1.99**	32,776,910	1.99

4.10 Share Options and Other Equity Instruments (continued)

(c) Non-Employee Share Options

Options to subscribe for ordinary shares and convertible preference shares have been granted by Ocado Limited to non-employees. These options are equity-settled, and do not have any vesting criteria. As a result of the Group's restructuring in 2014, these options are now held over ordinary shares in Ocado Group plc.

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

	27 November 2016		29 November 2015		
	Number of Share Options	Exercise Price (£)	Number of Share Options	Exercise Price (£)	Exercise Period
January 2004	**435,300**	**1.03**	435,300	1.03	03/01/04 – 03/01/18
Outstanding at the end of the period	**435,300**		435,300		

There was no movement in the number of non-employee share options outstanding in the period (2015: £nil). All non-employee share options are exercisable at the end of the period.

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

	27 November 2016			29 November 2015		
	Exercise Price (£)	Number of Share Options	Weighted Average Remaining Contractual Life (years)	Exercise Price (£)	Number of Share Options	Weighted Average Remaining Contractual Life (years)
	1.03	**435,300**	**1.1**	1.03	435,300	2.1
Outstanding at the end of the period		**435,300**			435,300	

(d) Sharesave Scheme

In 2010 the Group launched the Ocado Group Sharesave Scheme ("SAYE"). This is an HMRC approved scheme and is open to any person that was an employee or officer of the Group at the launch date. Under the scheme, members save a fixed amount each month for three years. At the end of the three-year period they are entitled to use these savings to buy shares in the Company at 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 Sharesave Schemes SAYE2, SAYE3, SAYE4 and SAYE5.

At 27 November 2016 employees of the Company's subsidiaries held 2,950 (2015: 2,273) contracts in respect of options over 6,260,286 (2015: 3,549,479) shares. Details of the movement in the number of Sharesave options outstanding during each period are as follows:

	27 November 2016		29 November 2015	
	Number of Share Options	Weighted Average Exercise Price (£)	Number of Share Options	Weighted Average Exercise Price (£)
Outstanding at the beginning of the period	**3,549,479**	**3.16**	3,789,044	1.67
Granted during the period	**4,582,171**	**2.28**	2,621,201	3.24
Forfeited during the period	**(1,864,633)**	**3.17**	(458,162)	3.02
Exercised during the period	**(6,731)**	**2.31**	(2,402,604)	0.91
Outstanding at the end of the period	**6,260,286**	**2.51**	3,549,479	3.16
Exercisable at the end of the period	**821,345**	**3.01**	18,607	2.82

Notes to the Consolidated Financial Statements

4.10 Share Options and Other Equity Instruments (continued)

(e) Long Term Incentive Plan

In 2013, 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 2014 LTIP, the performance conditions are the Group's revenue and earnings per share for the financial year ended 27 November 2016. For both the 2015 LTIP and the 2016 LTIP, there are four equally weighted performance conditions, which are operational efficiency and capital efficiency metrics related to the retail business and the platform business, the Group's retail business revenue and Group's retail business earnings before tax for the financial year ending December 2017, and financial year ending December 2018 respectively.

The number of awards issued, adjusted to reflect the achievement of the performance conditions, will then vest during 2016 for the 2013 LTIP, 2017 for the 2014 LTIP, 2018 for the 2015 LTIP and 2019 for the 2016 LTIP. Full vesting will only therefore occur where exceptional performance levels have been achieved and significant shareholder value created. An award will lapse if a participant ceases to be employed within the Group before the vesting date.

A summary of the status of the LTIP as at 27 November 2016 and changes during the year is presented below:

	Number of Share Awards 27 November 2016	Number of Share Awards 29 November 2015
Outstanding at the beginning of the period	6,076,621	5,087,848
Granted during the period	1,490,029	988,773
Exercised during the period	(4,415,040)	—
Outstanding at the end of the Period	3,151,610	6,076,621

There were no awards exercisable as at 27 November 2016 (2015: None).

The Group recognised an expense of £2.8 million (2015: £6.1 million) related to these awards in the Consolidated Income Statement during the year. The expectation of meeting the performance criteria, based upon internal budgets and forecasts, was taken into account when calculating this expense.

(f) Chairman's Share Matching Award

In 2013, the Group introduced the equity-settled Chairman's Share Matching Award, under which a one-off award of restricted shares was awarded to the Chairman, Lord Rose, on assuming the role of Chairman.

The award condition is based on a personal investment of a minimum of 400,000 shares and continued membership of the Board. The award vested in the current period, being three years from when the award was approved by the shareholders. There were no performance criteria to which vesting was subject.

These shares are restricted from being sold while he is on the Board and the shares are not allowed to be sold until the first anniversary of his ceasing to be a member of the Board.

A summary of the status of this Chairman's Share Matching Award as at 27 November 2016 and changes during the year is presented below:

	Number of Share Awards 27 November 2016	Number of Share Awards 29 November 2015
Outstanding at the beginning of the period	452,284	452,284
Exercised during the period	(452,284)	—
Outstanding at the end of the period	—	452,284

The Group recognised an expense of £0.1 million (2015: £0.4 million) related to this award in the Consolidated Income Statement during the year.

(g) Growth Incentive Plan

In 2014, the Group introduced an equity-settled growth incentive plan ("GIP"), under which nil cost shares were conditionally awarded to certain Executive Directors.

The final number and proportion of awards expected to vest will depend on achievement of a performance condition, being the growth in the Company's share price relative to the growth in the FTSE 100 Share Index over a five-year performance period.

These awards will vest in 2019. An award will lapse if a participant ceases to be employed within the Group before the vesting date.

4.10 Share Options and Other Equity Instruments (continued)

Performance will be assessed based on the three-month average share price of the Company and the FTSE 100 Share Index at the end of the performance period in comparison to the three-month average share price of the Company and the FTSE 100 Share Index prior to the start of the performance period.

In determining the fair value of the awards granted, a unique Monte Carlo model was used with the following inputs:

Weighted average share price	**£3.19**
Value of FTSE 100 index	**6,389.25**
Expected correlation	**29%**
Expected volatility of Company	**40%**
Expected volatility of FTSE 100 index	**16%**
Weighted expected life – years	**5.0**
Risk-free rate	**1.96%**
Expected dividend yield	**0%**
Valuation model	**Monte Carlo Pricing**

Expected correlation was determined with reference to the 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.

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 27 November 2016 and changes during the year is presented below:

	Number of Share Awards
Outstanding at 30 November 2014	6,000,000
Granted during the year	—
Outstanding at 29 November 2015	6,000,000
Granted during the year	—
Outstanding at 27 November 2016	**6,000,000**

There were no awards exercisable as at 27 November 2016 (2015: None).

The Group recognised an expense of £1.2 million (2015: £1.3 million) related to these awards in the Consolidated Income Statement during the year. The expectation of meeting the performance criteria was taken into account when calculating this expense.

(h) Share Incentive Plan

In 2014, the Group introduced the Ocado Share Incentive Plan ("SIP"). This HMRC approved scheme provides all employees, including Executive Directors, the opportunity to receive and invest in Company shares. All SIP shares are held in a SIP Trust, administered by Yorkshire Building Society.

There are two elements in the plan – the Buy As You Earn ("BAYE") arrangement and the Free Share Award. Under the BAYE, participants can purchase shares in the Company ("Partnership Shares") each month using contributions from pre-tax pay, subject to an upper limit. For every seven shares purchased, the Company gifts the participant one free share ("Matching Shares").

Under the Free Shares Award, shares are given to eligible employees, as a proportion of their annual base pay, subject to a maximum. Eligible employees are those with six months' service as at the grant date.

For Partnership Shares, eligible employees are those with three months' service. Partnership shares can be withdrawn from the Plan Trust at any time; however, Matching Shares and Free Shares are subject to a three-year holding period, during which continuous employment within the Group is required. The Matching Shares will be forfeited if any corresponding Partnership Shares are removed from the Plan Trust within this three-year period, or if the participant leaves Ocado.

Notes to the Consolidated Financial Statements

4.10 Share Options and Other Equity Instruments (continued)

A summary of the status of the SIP as at 27 November 2016 and changes during the year is presented below:

	Partnership Shares	Matching Shares	Free Shares	Number of Share Awards Total
Outstanding at 30 November 2014	52,714	7,189	383,089	442,992
Awarded during the period	139,790	19,968	452,018	611,776
Forfeited during the period	—	(2,661)	(88,642)	(91,303)
Released during the period	(19,346)	(46)	(2,459)	(21,851)
Outstanding at 29 November 2015	173,158	24,450	744,006	941,614
Unrestricted at 29 November 2015	173,158	—	654	173,812

	Partnership Shares	**Matching Shares**	**Free Shares**	**Number of Share Awards Total**
Outstanding at 29 November 2015	**173,158**	**24,450**	**744,006**	**941,614**
Awarded during the period	**195,565**	**27,856**	**693,341**	**916,762**
Forfeited during the period	**—**	**(6,278)**	**(132,914)**	**(139,192)**
Released during the period	**(50,429)**	**(852)**	**(10,703)**	**(61,984)**
Outstanding at 27 November 2016	**318,294**	**45,176**	**1,293,730**	**1,657,200**
Unrestricted at 27 November 2016	**318,294**	**—**	**1,909**	**320,203**

In the year, the Group recognised an expense of £0.6 million (2015: £0.3 million) related to these awards. The expectation of meeting the holding period was taken into account when calculating this expense.

4.11 Capital Management

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

The Board closely manages trading capital, defined as net assets plus net debt[A]. Net debt is calculated as total debt (obligations under finance leases and borrowings as shown in the Consolidated Balance Sheet), less cash and cash equivalents. The Group's net assets at the end of the period were £262.4 million (2015: £241.9 million) and it had net debt of £164.9 million (2015: £127.0 million).

The main areas of capital management revolve around working capital management and compliance with externally imposed financial covenants. The Group's objectives when managing capital are to safeguard its ability to continue as a going concern and balance the needs of the Group to grow, whilst operating with sufficient headroom within its bank covenants.

The components of working capital management include monitoring inventory turn, age of inventory, age of receivables, receivables days, payables days, balance sheet reforecasting, period projected profit/(loss), weekly cash flow forecasts and daily cash balances. Major investment decisions are based on reviewing the expected future cash flows and all major capital expenditure requires approval by the Board. There were no changes in the Group's approach to capital management during the period.

In the previous year the three-year £100 million revolving facility was extended by a further two years and the amount of the facility was increased to £210 million. As at 27 November 2016, £52.5 million of the facility had been utilised. The Group regularly reviews its financing arrangements. Throughout the period, the Group has complied with all covenants imposed by lenders. In addition, a key aspect of capital management was the strategic operating agreement with Morrisons and the operation of MHE JVCo, a company jointly owned with Morrisons, discussed in Note 5.4.

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

A See Alternative Performance Measures on page 194

4.11 Capital Management (continued)

At the Balance Sheet date, the Group's undrawn facilities and cash and cash equivalents were as follows:

	Notes	27 November 2016 £m	29 November 2015 £m
Total facilities available		400.6	409.6
Facilities drawn down†	4.2	(215.8)	(172.8)
Undrawn facilities at end of period‡		184.8	236.8
Cash and cash equivalents gross of drawn overdraft facility	3.9	50.9	45.8
		235.7	282.6

† In the prior year the three-year £100 million revolving facility was extended by a further two years and the amount of the facility was increased to £210 million.
‡ The undrawn facility at the end of the period, includes transaction costs. If transaction costs are excluded, then the undrawn facility is £183.6 million.

As at 27 November 2016, £52.5 million of the facility had been utilised. Transaction costs of £1.2 million relating to the facility amendment have been capitalised. The Group regularly reviews its financing arrangements.

Section 5 — Other notes

5.1 Subsidiaries

In accordance with section 409 of the Companies Act 2006, a full list of related undertakings, the country of incorporation and the effective percentage of equity owned, as at 27 November 2016 is disclosed below:

Name	Principal Activity	Share Class	Proportion of Share Capital Held (direct/indirect)	Country of Incorporation
The following companies are registered at Titan Court, 3 Bishops Square, Hatfield Business Park, Hatfield, Hertfordshire, AL10 9NE:				
Ocado Holdings Limited	Holding company	Ordinary shares	100%	England and Wales
Ocado Retail Limited	Retail	Ordinary shares	100%	England and Wales
Ocado Innovation Limited	Technology	Ordinary shares	100%	England and Wales
Ocado Operating Limited	Logistics and Distribution	Ordinary shares	100%	England and Wales
Ocado Central Services Limited	Business Services	Ordinary shares	100%	England and Wales
Ocado Innovation Holdings Limited	Non-trading company	Ordinary shares	100%	England and Wales
Jalapeno Partners Limited	Non-trading company	Ordinary shares	100%	England and Wales
Last Mile Technology Limited	Non-trading company	Ordinary shares	100%	England and Wales
MHE JVCo Limited	Trading company	£1.00 "B" shares	50%	England and Wales
The following companies are registered at Aquarius House, Bessemer Road, Welwyn Garden City, Hertfordshire, AL7 1HH:				
Speciality Stores Limited	Trading company	Ordinary shares	100%	England and Wales
Paws & Purrs Limited	Retail	Ordinary shares	100%	England and Wales
Marie Claire Beauty Limited	Retail	Ordinary shares	98%	England and Wales
The following company is registered at 2 Grand Canal Square, Grand Canal Harbour, Dublin 2, Ireland:				
Ocado Information Technology Limited	Intellectual property	Ordinary shares	100%	Republic of Ireland
The following company is registered at ul. Rakowicka 7, 31-511, Krakow, Poland:				
Ocado Polska Sp. Z.o.o.	Technology	Ordinary shares	100%	Poland
The following company is registered at Av. Josep Tarradellas 38, Planta 8a, 08029, Barcelona, Spain:				
Ocado Spain S.L.U.	Technology	Ordinary shares	100%	Spain
The following company is registered at 1209 Orange Street, Wilmington, Delaware 19801, United States of America:				
Oxford US LLC	Non-trading company	Ordinary shares	100%	United States of America
The following company is registered at 200 Bay Street, Suite 3800, Royal Bank Plaza, South Tower, Toronto, Ontario, M5J 2Z4, Canada:				
Pompano Canada Inc.	Non-trading company	Common	100%	Canada
The following company is registered at Paneltex House, Somerden Road, Hull, HU9 5PE:				
Paneltex Limited	Manufacturing	Ordinary shares	25%	England and Wales

In accordance with the exemption under Section 479A of the Companies Act the standalone financial statements for a subsidiary, Paws & Purrs Limited, will not be audited for the year ended 27 November 2016, but are included in the Group's consolidated financial statements in the period.

The Group has effective control over the financial and operating activities of the Ocado Cell in Atlas Insurance PCC Limited, an insurance company incorporated in Malta and therefore consolidates the Ocado Cell in its financial statements in accordance with IFRS 10 "Consolidated Financial Statements". The Group uses the Ocado Cell to provide self-insurance for its vehicle fleet and public and product liability claims.

Notes to the Consolidated Financial Statements

5.2 Commitments

Capital Commitments

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

	27 November 2016 £m	29 November 2015 £m
Land and buildings	2.5	3.4
Property, plant and equipment	31.9	18.9
Total capital expenditure committed at the end of the period	34.4	22.3

Of the total capital expenditure committed at the current period end, £25.7 million relates to new CFCs, £0.8 million to existing CFCs, £1.7 million to fleet costs and £2.0 million relates to technology related projects.

Operating Lease Commitments

The Group leases a number of offices, facilities and equipment under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights.

At 27 November 2016 the ageing profile of future aggregate minimum lease payments under non-cancellable operating leases is as follows:

	27 November 2016 £m	29 November 2015 £m
Due within one year	20.3	14.2
Due after one year but less than five	75.2	44.8
Due after five years	280.2	136.7
Total commitment	375.7	195.7

5.3 Contingent Liabilities

The Group has contingent liabilities in respect of legal claims arising in the ordinary course of business, all of which the Group expects will be either covered by its insurances or will not be material in the context of the Group's financial position.

5.4 Related Party Transactions

Key Management Personnel

Only the Executive and Non-Executive Directors are recognised as being key management personnel. It is the Board which has responsibility for planning, directing and controlling the activities of the Group. The key management compensation is as follows:

	27 November 2016 £m	29 November 2015 £m
Salaries and other short-term employee benefits	3.2	3.2
Share-based payments	3.1	5.6
	6.3	8.8

Further information on the remuneration of Directors and Directors' interests in ordinary shares of the Company is disclosed in the Directors' Remuneration Report on pages 76 to 115.

Other related party transactions with key management personnel made during the period related to the purchase of professional services and amounted to £900 (2015: £6,000). 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 (2015: £nil). There were no other material transactions or balances between the Group and its key management personnel or members of their close family.

5.4 Related Party Transactions (continued)

Investment

The following transactions were carried out with Paneltex Limited, a company incorporated in the UK in which the Group holds a 25% interest. Further information on the Group's relationship with Paneltex Limited is provided in Note 3.3.

	52 Weeks Ended 27 November 2016 £m	52 Weeks Ended 29 November 2015 £m
Purchase of goods		
— Plant and machinery	—	0.1
— Consumables	0.5	0.5
Sale of goods	0.1	—
	0.6	0.6

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 £11.8 million (2015: £12.2 million). At period end, the Group owed Paneltex £57,000 (2015: £31,000).

Joint Venture

The following transactions were carried out with MHE JVCo, a joint venture company, incorporated in the UK, in which the Group holds a 50% interest:

	27 November 2016 £m	29 November 2015 £m
Capital contributions made to MHE JVCo	1.1	—
Dividend received from MHE JVCo	8.4	8.1
Reimbursement of supplier invoices paid on behalf of MHE JVCo	4.9	6.1
Lease of assets from MHE JVCo	3.1	3.0
Capital element of finance lease instalments paid to MHE JVCo	13.8	14.3
Interest element of finance lease instalments accrued or paid to MHE JVCo	5.8	6.2

During the period the Group paid lease instalments (including interest) of £19.6 million (2015: £20.5 million) to MHE JVCo.

Of the £19.6 million, £10.7 million (2015: £10.6 million) was recovered directly from Morrisons in the form of Other Income and a further £8.4 million (2015: £8.1 million) was received from MHE JVCo by way of a dividend. The remaining £0.5 million (2015: £1.8 million) represents capital expenditure requirements of MHE JVCo for which no additional funding was required from Ocado. The net result is the termination of £13.8 million of MHE JVCo debt during the period (2015: £14.3 million) with no corresponding net cash outflow.

In the current period, the Group made capital contributions of £1.1 million to MHE JVCo (2015: £nil).

Included within trade and other receivables is a balance of £5.3 million owed by MHE JVCo (2015: £5.6 million). £0.8 million of this relates to a finance lease accrual which is included within other receivables (2015: £1.0 million). £4.5 million (2015: £4.6 million) relates to capital recharges.

Included within trade and other payables is a balance of £3.8 million owed to MHE JVCo (2015: £1.0 million).

Included within obligations under finance leases is a balance of £108.7 million owed to MHE JVCo (2015: £119.5 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 27 November 2016.

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 27 November 2016 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

The financial statements, included within the Annual Report, comprise:

- the Company Balance Sheet as at 27 November 2016;
- the Company Statement of Cashflows for the period then ended;
- the Company Statement of Changes in Equity for the period then ended;
- the notes to the Company financial statements, which include other explanatory information and the accounting policies.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law, and as applied in accordance with the provisions of the Companies Act 2006.

Other required reporting

Consistency of other information

Companies Act 2006 reporting

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 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 Directors' Responsibilities Statement set out on pages 72-73, 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 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 27 November 2016.

Andrew Latham (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
St Albans
30 January 2017

Company Balance Sheet

as at 27 November 2016

	Notes	27 November 2016 £m	29 November 2015 £m
Non-Current Assets			
Investments	3.1	**505.6**	498.5
		505.6	498.5
Current Assets			
Other receivables	3.3	**244.0**	240.4
Cash and cash equivalents	3.4	**14.6**	18.9
		258.6	259.3
Total Assets		**764.2**	757.8
Current Liabilities			
Trade and other payables	3.5	**(0.3)**	(0.2)
Provisions	3.6	**(0.9)**	(2.1)
		(1.2)	(2.3)
Net Current Assets		**257.4**	257.0
Non-Current Liabilities			
Provisions	3.6	**(1.6)**	(1.6)
		(1.6)	(1.6)
Net Assets		**761.4**	753.9
Equity			
Share capital	4.1	**12.6**	12.6
Share premium	4.1	**260.1**	259.0
Retained earnings		**488.7**	482.3
Total Equity		**761.4**	753.9

The notes on pages 179 to 189 form part of these financial statements.

The Company financial statements on pages 176 to 189 were authorised for issue by the Board of Directors and signed on its behalf by:

Tim Steiner
Chief Executive Officer

Duncan Tatton-Brown

Chief Financial Officer

Ocado Group plc
Company Registration Number 07098618 (England and Wales)
31 January 2017

Company Statement of Changes in Equity

for the 52 weeks ended 27 November 2016

	Notes	Share Capital £m	Share Premium £m	Retained Earnings £m	Total Equity £m
Balance at 30 November 2014		12.5	254.6	475.4	742.5
Loss for the period		—	—	(0.8)	(0.8)
Total Comprehensive Income for the Period Ended 29 November 2015		—	—	(0.8)	(0.8)
Transactions with owners:					
– Issue of ordinary shares	4.1	0.1	4.4	—	4.5
– Share-based payments charge		—	—	7.7	7.7
Total Transactions with Owners		0.1	4.4	7.7	12.2
Balance at 29 November 2015		12.6	259.0	482.3	753.9
Result for the period			—	—	—
Total Comprehensive Income for the Period Ended 27 November 2016		—	—	—	—
Transactions with owners:					
– Issue of ordinary shares	4.1	—	1.1	—	1.1
– Share-based payments charge	4.2	—	—	6.4	6.4
Total Transactions with Owners		**—**	**1.1**	**6.4**	**7.5**
Balance at 27 November 2016		**12.6**	**260.1**	**488.7**	**761.4**

The notes on pages 179 to 189 form part of these financial statements.

Company Statement of Cash Flows

for the 52 weeks ended 27 November 2016

	Notes	52 Weeks Ended 27 November 2016 £m	52 Weeks Ended 29 November 2015 £m
Cash Flow From Operating Activities			
Result/(loss) before income tax		—	(0.8)
Adjustments for:			
— Net finance costs		—	(0.2)
Changes in working capital:			
— Movement in Provisions		(1.2)	—
— Movement in other receivables		(4.3)	(37.4)
— Movement in trade and other payables		0.1	(0.8)
Net Cash Outflow From Operating Activities		(5.4)	(39.2)
Cash Flow From Investing Activities			
Interest received		—	0.2
Net Cash From Investing Activities		—	0.2
Cash Flow From Financing Activities			
Proceeds from issue of ordinary share capital net of transaction costs		1.1	4.5
Net Cash From Financing Activities		1.1	4.5
Net Decrease in Cash and Cash Equivalents		(4.3)	(34.5)
Cash and cash equivalents at beginning of period		18.9	53.4
Cash and Cash Equivalents at End of Period	3.4	14.6	18.9

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 27 November 2016 (prior period 52 weeks ended 29 November 2015).

Basis of Preparation

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

The financial statements are presented in sterling, rounded to the nearest hundred thousand unless otherwise stated. They have been prepared under the historical cost convention, except for financial instruments that have been measured at fair value.

The Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements of the Company.

Exemptions

The Directors have taken advantage of the exemption available under Section 408 of the Companies Act and not presented an income statement, a statement of comprehensive income or a cash flow for the Company alone. The result for the period is £nil (2015: loss £0.8 million).

Standards, amendments and interpretations adopted by the Company in the period or issued that are effective

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 30 November 2015 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:

		Effective Date
IFRS 5	Share-based Payments	1 January 2016
IFRS 10	Consolidated Financial Statements	1 January 2016
IFRS 11	Joint Arrangements	1 January 2016
IFRS 12	Disclosure in Other Entities	1 January 2016
IAS 1	Presentation of Financial Statements	1 January 2016
IAS 16	Property, Plant and Equipment	1 January 2016
IAS 28	Investments in Associates and Joint Ventures	1 January 2016
IAS 36	Intangible Assets	1 January 2016

Standards, amendments and interpretations issued that are not effective, and which have not been early-adopted by the Company

The following further new standards, interpretations and amendments to published standards and interpretations which are relevant to the Company have been issued but are not effective for the financial year beginning 30 November 2015 and have not been adopted early:

		Effective Date
IFRS 2	Share-based payments	1 January 2018
IFRS 9	Financial Instruments	1 January 2018
IFRS 12	Disclosure in Other Entities	1 January 2017
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Leases	1 January 2019
IAS 28	Investments in Associates and Joint Ventures	1 January 2018
Various	Amendments to various IFRSs and IASs including those arising from the IASB's annual improvements project	Various

The following new standards are not yet effective and the impact on the Company is currently under review:

— IFRS 15 "Revenue from Contracts with Customers" (endorsed by the EU) provides on the recognition and measurement of revenue. The standard establishes a principles-based approach for revenue recognition and is based on the concept of recognising revenue for obligations only when they are satisfied and the control of goods or services is transferred. This applies to all contracts with customers except those in the scope of other standards. This new standard will replace IAS 12 "Revenue" and is effective for annual periods beginning on or after 1 January 2018 unless adopted early. The Company is currently reviewing the impact of IFRS 15.

— IFRS 16 "Leases" provides guidance on the classification, recognition and measurement of leases to help provide useful information to the users of financial statements. The main aim of this standard is to ensure all leases will be reflected on the Balance Sheet, irrespective of substance over form. The new standard will replace IAS 17 "Leases" and is effective for annual periods beginning on or after 1 January 2019 unless adopted early. The Company is currently reviewing the impact of IFRS 16.

Notes to the Company Financial Statements

Accounting Policies

Foreign Currency Translation

Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement.

Taxation

Tax is recognised in the Income Statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity respectively.

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

Critical Accounting Estimates and Assumptions

The preparation of the Company financial statements requires the use of certain judgements, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Section 2 — Results for the Year

2.1 Profit Before Tax

Accounting Policies

Administrative Expenses

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

2.2 Operating Result

During the period, the Company obtained audit services from its auditors, PricewaterhouseCoopers LLP, to the amount of £0.07 million (2015: £0.06 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

	27 November 2016 £m	29 November 2015 £m
Cost	476.5	476.5
Contributions to subsidiaries:		
— Novation of derivative liability in respect of warrants issued by Ocado Limited	1.1	1.1
— Group share-based payments	28.0	20.9
Carrying Value at end of Period	**505.6**	498.5

Investments represent investments in Group companies, Ocado Holdings Limited and Ocado Innovation Limited. A list of subsidiary undertakings held by the Company is disclosed in note 5.1 to the consolidated financial statements.

Subsidiaries are recharged for the amount recognised as share-based payments relating to awards to their employees. These are recognised as an increase in the investment in relevant subsidiaries in accordance with IFRS 2 "Share-based Payments".

Notes to the Company Financial Statements

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

	27 November 2016 £m	29 November 2015 £m
Amounts due from subsidiary undertakings	**244.0**	240.4

3.4 Cash and Cash Equivalents

	27 November 2016 £m	29 November 2015 £m
Cash at bank and in hand	**14.6**	18.9

3.5 Trade and Other Payables

	27 November 2016 £m	29 November 2015 £m
Deferred income and accruals	**0.3**	0.2
	0.3	0.2

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 Long Term Incentive Plan ("LTIP"), the Chairman's Share Matching Award, the Growth Incentive Plan ("GIP") and unapproved Executive Share Option Scheme ("ESOS"). For more details on these schemes, refer to note 4.10 to the consolidated financial statements.

In 2014, the Company established the Cash LTIP in order to incentivise selected high performing employees of the Group. At the end of the three-year vesting period, employees will be paid a cash amount equal to the notional number of awards at the prevailing share price, adjusted for the achievement of the performance conditions.

Provisions

	Employee Incentive Schemes £m
As at 30 November 2014	1.6
Charged to the Income Statement	
— additional provision	2.1
— unused amounts reversed	—
Used during the period	—
As at 29 November 2015	3.7
Charged to the Income Statement	
— additional provision	**0.9**
— unused amounts reversed	**(0.2)**
Used during the period	**(1.9)**
As at 27 November 2016	**2.5**

Analysis of Total Provisions as at 29 November 2015

	Employee Incentive Schemes £m
Current	2.1
Non-current	1.6
	3.7

Analysis of Total Provisions as at 27 November 2016

	Employee Incentive Schemes £m
Current	**0.9**
Non-current	**1.6**
	2.5

Notes to the Company Financial Statements

3.6 Provisions (continued)

Employee Incentive Schemes

The provision consists of the Cash LTIP and employers' NIC on HMRC unapproved equity-settled schemes.

The Cash LTIP provision represents the expected cash payments to participants upon vesting of the awards. It has been calculated using various assumptions regarding liquidity, participants' retention and achievability of the performance conditions and valued with reference to the year end share price. If at any point following initial valuation any of these assumptions are revised, the charge will need to be amended accordingly. In addition to the base cost, since this is a cash benefit, the Company will be liable to pay employer's NIC on the value of the cash award on vesting, which is included in the above employer's NIC provision.

To calculate the employer's NIC provision, the applicable employer's NIC rate is applied to the number of share awards which are expected to vest, valued with reference to the year end share price. The number of share awards expected to vest is dependent on various assumptions which are determined by management; namely participants' retention rate, the expectation of meeting the performance criteria, if any, and the liquidity discount. All assumptions are supported by historical trends and internal financial forecasts, where appropriate.

For the GIP, an external valuation was carried out to determine the fair value of the awards granted (see Note 4.10 (g) to the consolidated financial statements).

If at any point during the life of each share award, any non-market conditions are subject to change, such as the retention rate or the likelihood of the performance condition being met, the number of share awards likely to vest will need to be recalculated which will cause the value of the employer's NIC provision to change accordingly.

Once the share awards under each of the schemes have vested, the provision will be utilised when they are allotted to participants. Vesting will occur between 2016 and 2019.

Section 4 — Capital Structure and Financing Costs

4.1 Share Capital and Premium

Accounting Policies

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

Share Capital and Premium

Included in the total number of ordinary shares outstanding below are 32,830,613 (2015: 34,770,981) ordinary shares held by the Group's employee benefit trust (see Note 4.10(b) to the Consolidated financial statements). The ordinary shares held by the trustee of the Group's employee benefit trust pursuant to the Joint Share Ownership Scheme are treated as treasury shares in the Group's Consolidated Balance Sheet in accordance with IAS 32 "Financial Instruments: Presentation". These ordinary shares have voting rights but these have been waived by the trustee. The number of allotted, called up and fully paid shares, excluding treasury shares, at the end of each period differs from that used in the basic earnings per share calculation in Note 2.9 to the Consolidated financial statements, as basic earnings per share is calculated using the weighted average number of ordinary shares in issue during the period, excluding treasury shares.

At 27 November 2016, the number of ordinary shares available for issue under the Block Listing Facilities was 13,318,184 (2015: 14,620,308). These ordinary shares will only become allotted when the shares under the Share Incentive Plan have been awarded or the share options under the Group's executive share ownership scheme, non-employee share options and Sharesave schemes have been exercised, and are therefore not included in the total number of ordinary shares outstanding.

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

	Ordinary Shares Number (million)	Ordinary Shares £m	Share Premium £m
At 30 November 2014	620.9	12.5	254.6
Issues of ordinary shares	0.6	—	0.5
Allotted in respect of share option schemes	3.9	0.1	3.9
At 29 November 2015	625.4	12.6	259.0
Issues of ordinary shares	**3.4**	—	**0.6**
Allotted in respect of share option schemes	**0.4**	—	**0.5**
At 27 November 2016	**629.2**	**12.6**	**260.1**

4.2 Share-Based Payments

For more information on the Group's share schemes, see Note 4.10 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 determine the classification of their financial instruments at initial recognition or in certain circumstances on modification.

Offsetting Financial Instruments

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

Fair Value of Financial Instruments

Set out below is a comparison by category of carrying values and fair values of all financial instruments that are included in the financial statements. The fair values of financial assets and liabilities are based on prices available from the market on which the instruments are traded where available. The fair values of cash and cash equivalents, receivables and payables are assumed to approximate to their carrying values but for completeness are included in the analysis below.

		27 November 2016		29 November 2015	
	Notes	Carrying Value £'000	Fair Value £'000	Carrying Value £'000	Fair Value £'000
Financial Assets					
Investments	3.1	**505.6**	**505.6**	498.5	498.5
Cash and cash equivalents	3.4	**14.6**	**14.6**	18.9	18.9
Other receivables	3.3	**244.0**	**244.0**	240.4	240.4
Total financial assets		**764.2**	**764.2**	757.8	757.8
Financial Liabilities					
Trade and other payables	3.5	**(0.3)**	**(0.3)**	(0.2)	(0.2)
Total financial liabilities		**(0.3)**	**(0.3)**	(0.2)	(0.2)

Notes to the Company Financial Statements

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:

		27 November 2016		29 November 2015	
	Notes	Gross £'000	Impairment £'000	Gross £'000	Impairment £'000
Not past due	3.3	**244.0**	—	240.4	—

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

4.5 Liquidity Risk

In the prior year, the three-year £100 million revolving facility was extended by a further two years and the amount of the facility was increased to £210 million. As at 27 November 2016, £52.5 million of the facility had been utilised. The Company regularly reviews its financing arrangements. The Company monitors cash flow as part of its day-to-day control procedures and the Board considers cash flow projections on a monthly basis. The Company's capital management policies are consistent with those of the Group. For further details on the Group's capital management strategy see Note 4.11 to the consolidated financial statements.

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

	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	(0.2)	(0.2)	(0.2)	—	—	—
29 November 2015		(0.2)	(0.2)	(0.2)	—	—	—

	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	**(0.3)**	**(0.3)**	**(0.3)**	—	—	—
27 November 2016		**(0.3)**	**(0.3)**	**(0.3)**	—	—	—

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:

	27 November 2016 £m	29 November 2015 £m
Fixed Rate Instruments		
Financial assets	14.6	17.9
Variable Rate Instruments		
Financial assets	—	1.0

Sensitivity Analysis

An increase of 100 basis points (1.0%) in interest rates would impact equity and profit or loss by the amounts shown below. A rate of 100 basis points was deemed appropriate, considering the current short-term interest rate outlook. The calculation applies the increase to average floating rate interest bearing borrowings and cash and cash equivalents existing during the period. This analysis assumes that all other variables remain constant and considers the effect on financial instruments with variable interest rates.

	27 November 2016 £m	29 November 2015 £m
Equity		
Result	—	—
Income		
Loss	—	—

Notes to the Company Financial Statements

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 29 November 2015					
Financial Assets					
Investments	3.1	498.5	—	—	498.5
Cash and cash equivalents	3.4	—	18.9	—	18.9
Other receivables	3.3	—	240.4	—	240.4
Total		498.5	259.3	—	757.8
Financial Liabilities					
Trade and other payables	3.5	—	—	(0.2)	(0.2)
Total		—	—	(0.2)	(0.2)

	Notes	Available-For-Sale £m	Loans and Receivables £m	Other Financial Liabilities at Amortised Cost £m	Total £m
As at 27 November 2016					
Financial Assets					
Investments	3.1	**505.6**	**—**	**—**	**505.6**
Cash and cash equivalents	3.4	**—**	**14.6**	**—**	**14.6**
Other receivables	3.3	**—**	**244.0**	**—**	**244.0**
Total		**505.6**	**258.6**	**—**	**764.2**
Financial Liabilities					
Trade and other payables	3.5	**—**	**—**	**(0.3)**	**(0.3)**
Total		**—**	**—**	**(0.3)**	**(0.3)**

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 4.11 to the Consolidated financial statements.

Section 5 — Other Notes

5.1 Related Party Transactions

Key Management Personnel

Only the Executive and Non-Executive Directors are recognised as being key management personnel. It is the Board which has responsibility for planning, directing and controlling the activities of the Company. Executive and Non-Executive Directors did not receive any remuneration for their services to the Company.

Directors' interests in ordinary shares of the Company are disclosed in the Directors' Remuneration Report on page 104.

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 £2,000 was earned on these loans at market-related interest rates during the period (2015: £10,000).

Transactions with Subsidiaries	52 Weeks Ended 27 November 2016 £m	52 Weeks Ended 29 November 2015 £m
Group share-based payments	7.1	9.8
Increase in loans made to subsidiary undertakings	3.6	37.2
Increase/(Decrease) in amounts due to subsidiary undertakings	0.1	(0.6)

Year end Balances Arising from Transactions with Subsidiaries	27 November 2016 £m	29 November 2015 £m
Receivables:		
Loans and receivables due from subsidiaries	244.0	240.4
Payables:		
Loans and receivables due to subsidiaries	0.3	0.2

5.2 Post Balance Sheet Events

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

Additional Information

Glossary

2014 ESOS – means the Ocado 2014 Executive Share Option Scheme.

2016 Code – means the UK Corporate Governance Code published by the FRC in April 2016.

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

Administrative Expenses – means all IT costs, advertising and marketing expenditure, employment costs of all head office functions, which include legal, finance, human resources, marketing and procurement, rent and other property-related costs for the head office, all fees for professional services and the depreciation, amortisation and impairment associated with head office IT equipment, software, fixtures and fittings and expenses relating to the Group's share schemes.

Admission – means the admission of the ordinary shares of the Company to the premium listing segment of the Official List and to trading on the London Stock Exchange's main market for listed securities which occurred on 26 July 2010.

AGM – means the Annual General Meeting of the Company, which will be held on 3 May 2017 at 11 am at Peterborough Court, 133 Fleet Street, London, EC4A 2BB.

American Depositary Receipts – means securities that have been created to permit US investors to hold shares in non-US companies and, in a Level 1 programme, to trade them on the over-the-counter market in the United States.

Annual Incentive Plan or AIP – means the Executive Director incentive plan for the Group applicable to a particular financial year.

Articles – means the articles of association of the Company.

Beauty MIP – means the management incentive plan for key management of Marie Claire Beauty Limited.

Board – means the Board of Directors of the Company or its subsidiaries from time to time as the context may require.

Brexit – means the UK's decision to leave the European Union following the referendum on 23 June 2016.

Chairman's Share Matching Award – means a one-off award of shares to Lord Rose, made in May 2013.

Cash LTIP – means the Company's cash-based Long Term Incentive Plan for senior employees.

Code – means the UK Corporate Governance Code published by the FRC in September 2014.

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. The CFCs are: CFC1 in Hatfield, CFC2 in Dordon, CFC3 in Andover and CFC4 in Erith (under construction).

Deloitte – means Deloitte LLP.

Directors – means the Directors of the Company whose names are set out on pages 48 and 49, or the Directors of the Company's subsidiaries from time to time as the context may require.

Directors' Remuneration Policy or 2017 Policy – means the 2017 Directors' remuneration policy that the Company will propose to shareholders at the AGM and which is set out on pages 80 to 96.

2014 Directors' Remuneration Policy or 2014 Policy – means the Directors' remuneration policy which was approved by shareholders at the 2014 Annual General Meeting and is set out on pages 87 to 97 of the 2015 annual report and accounts and on the Company's corporate website at www.ocadogroup.com.

Disclosure Guidance and Transparency Rules – means the disclosure guidance and transparency rules made under Part VI of the Financial Services and Markets Act 2000 (as amended).

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

DPV – means deliveries per van per week.

EBITDAⒶ – 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 Estera Trust (Jersey) Limited.

EPS – means earning per share.

ESOS – means the HMRC-approved Ocado 2001 Executive Share Option Scheme and the Ocado 2001 Non-HMRC approved Executive Share Option Scheme.

Exceptional ItemsⒶ – means items that due to their material and non-recurring nature have been classified separately in order to draw them to the attention of the reader of the financial statements.

Executive Directors – means Tim Steiner, Neill Abrams, Duncan Tatton-Brown and Mark Richardson.

Fabled.com – means the Group's premium beauty online store in collaboration with Marie Claire and Time Inc.

Fetch.co.uk – means the Group's dedicated online pet store.

Financial Period – means the 52 week period, or 53 week period where relevant, ending the closest Sunday to 30 November.

Financial Year or FY – see Financial Period.

FRC – means the Financial Reporting Council.

GAAP – means generally accepted accounting principles.

GHG – means greenhouse gas(es).

GIP – means the Growth Incentive Plan.

GMDC – means the General Merchandise Distribution Centre in Welwyn Garden City, a dedicated highly automated warehouse used for the operation of the business.

Gross Sales (Group)Ⓐ – 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, fabled.com, fetch.co.uk and sizzle.co.uk.

Group – means Ocado Group plc, its subsidiaries, significant undertakings and affiliated companies under its control or common control.

HMRC – means Her Majesty's Revenue & Customs.

IAS – means International Accounting Standard(s).

IFRIC – means International Financial Reporting Standards Interpretations Committee.

IFRS – means International Financial Reporting Standard(s).

IGD – means the Institute of Grocery Distribution.

IP – means Intellectual Property.

ISA (UK & Ireland) – means International Standard on Auditing in the UK and Ireland.

John Lewis – means John Lewis plc, the parent company of Waitrose, incorporated in 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.

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 operations 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 a Group subsidiary and Morrisons.

A See Alternative Performance Measures on page 194

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 composed principally of bank interest and other interest. Finance cost is composed of interest on bank loans and overdrafts, interest on finance leases and interest on other financing arrangements.

Non-Executive Directors – means the non-executive Directors of the Company designated as such on pages 48 and 49.

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 or the Group's advisers in respect of non-audit services.

R&D – means Research and Development.

Revenue – means online sales (net of returns) through the Webshop and Ocado on the Go, including charges for delivery, but excluding relevant vouchers, offers and value added tax. The recharge of costs to Morrisons and fees charged to Morrisons 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.

Shareholder – means a holder for the time being of ordinary shares in the Company.

Sharesave Scheme or SAYE Scheme – means the Ocado employee savings-related share option plan approved by HMRC. SAYE1 means the first invitations made under the scheme in 2010, SAYE2 means the second invitations made under the scheme in 2012, SAYE3 means the third invitations made under the scheme in 2013, SAYE4 means the fourth invitations made under the scheme in 2015 and SAYE5 means the fifth invitations made under the scheme in 2016.

SIP – means the Share Incentive Plan.

Sizzle.co.uk – means the Group's dedicated online kitchen and dining store.

SKU – means a "stock keeping unit", that is each line of stock.

Smart Pass (previously Saving Pass) – means the Ocado pre-pay membership scheme which includes the delivery pricing scheme previously known as Delivery Pass and the discount membership scheme formerly known as Saving Pass.

Sourcing Agreement – means the various sourcing and branding agreements between Ocado, Waitrose and John Lewis.

Spoke – means the trans-shipment sites used for the intermediate handling of customers' orders.

Substitution – means an alternative product provided in place of the original product ordered by a customer.

TSR – means total shareholder return – the growth in value of a shareholding over a specified period, assuming that dividends are reinvested to purchase additional units of the stock.

UPH – means average units processed per labour hour.

USDAW – means the Union of Shop, Distributive and Allied Workers.

Waitrose – means Waitrose Limited, a company incorporated in 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.fabled.com, www.fetch.co.uk and www.sizzle.co.uk.

Alternative Performance Measures

We assess the performance of the Group using a variety of alternative performance measures which are not defined under IFRS and are therefore termed 'non-GAAP' measures. These measures provide additional useful information on the underlying trends, performance and position of the Group. The non-GAAP measures we use are:

- Gross Sales;
- Gross Sales (Retail);
- Exceptional Items;
- Underlying administrative costs and distribution costs;
- EBITDA;
- External gross debt; and
- Net debt.

A reconciliation from these non-GAAP measures to the nearest measure prepared in accordance with IFRS is presented below. The alternative performance measures we use may not be directly comparable with similarly titled measures used by other companies.

Gross Sales

Gross Sales is a measure of reported revenue before excluding value added tax and relevant vouchers and offers. Gross Sales is a common measure used by investors and analysts to evaluate the operating financial performance of companies within the retail sector.

A reconciliation from reported revenue to Gross Sales can be found in note 2.3 in the consolidated financial statements.

Gross Sales (Retail)

Gross Sales (Retail) is a measure of reported revenue for the Group's retail operation, before excluding value added tax and relevant vouchers. The Group's retail operation comprises Ocado.com, Fabled.com, Fetch.co.uk and Sizzle.co.uk. Management consider this an important measure of the performance of the Group's retail business.

Exceptional items

The Group's Consolidated Income Statement separately identifies trading results before exceptional Items. The Directors believe that presentation of the Group's results in this way is relevant to an understanding of the Group's financial performance. This presentation is consistent with the way that financial performance is measured by management and reported to the Board and assists in providing a meaningful analysis of the trading results of the Group. This also facilitates comparison with prior periods to assess trends in financial performance more readily.

The Group applies judgement in identifying significant non-recurring items of income and expense that are recognised as exceptional to help provide an indication of the Group's underlying business. In determining whether an event or transaction is exceptional in nature, management considers quantitative as well as qualitative factors such as the frequency or predictability of occurrence.

Examples of items that the Group considers exceptional include, but are not limited to, material costs relating to the opening of a new warehouse, corporate reorganisations, material litigation, and any material costs, outside of the normal course of business as determined by management.

Exceptional items are disclosed in note 2.7 to the consolidated financial statements.

Underlying distribution and administrative costs

Underlying distribution and administrative costs are measures which seek to reflect the underlying performance of the Group that will contribute to long-term sustainable growth. As such, they exclude the impact of depreciation, amortisation, impairment and costs relating to the provision of services to Morrisons.

A reconciliation from reported distribution and administrative costs, the most directly comparable IFRS measure, to the decrease in underlying administrative and distribution costs, is set out below.

	2016 £m	2015 £m
Underlying distribution costs	247.5	216.6
Costs recharged to Morrisons	76.4	52.0
Depreciation and amortisation	41.8	40.8
Reported distribution costs	365.7	309.4

	2016 £m	2015 £m
Underlying administrative costs	78.8	73.4
Costs recharged to Morrisons	3.4	2.9
Depreciation and amortisation	18.4	19.3
Reported administrative costs	100.6	95.6

EBITDA

In addition to measuring financial performance of the Group based on operating profit, we also measure performance based on EBITDA. EBITDA is defined as the Group earnings before depreciation, amortisation, impairment, net finance expense, taxation and Exceptional Items. EBITDA is a common measure used by investors and analysts to evaluate the operating financial performance of companies.

We consider EBITDA to be a useful measure of our operating performance because it approximates the underlying operating cash flow by eliminating depreciation and amortisation. EBITDA is not direct measures of our liquidity, which is shown by our cash flow statement, and needs to be considered in the context of our financial commitments.

A reconciliation from operating profit to EBITDA can be found on the face of the Consolidated Income Statement on page 125.

External gross debt

External gross debt consists of loans and other borrowings (both current and non-current), less finance leases payable to joint venture interests of the Group.

External gross debt is a measure of the Group's indebtedness to third parties which are not considered a related party to the Group.

A reconciliation from this to gross debt can be found below.

	2016 £m	2015 £m
External gross debt	107.1	53.3
Finance leases relating to joint ventures	108.7	119.5
Gross debt	215.8	172.8

Net Debt

Net debt consists of loans and other borrowings (both current and non-current), less cash and cash equivalents. Loans and other borrowings are measured as the net proceeds raised, adjusted to amortise any discount over the term of the debt.

Net debt is a measure of the Group's net indebtedness that provides an indicator of the overall balance sheet strength. It is also a single measure that can be used to assess the combined impact of the Group's cash position and its indebtedness. The use of the term 'net debt' does not necessarily mean that the cash included in the net debt calculation is available to settle the liabilities included in this measure.

Net debt is considered to be an alternative performance measure as it is not defined in IFRS. The most directly comparable IFRS measure is the aggregate of loans and other borrowings (current and non-current) and cash and cash equivalents. A reconciliation from these measures to net debt can be found in Note 4.4 in the consolidated financial statements.

Five Year Summary

	52 Weeks to 27 November 2016 £m	52 Weeks to 29 November 2015 £m	52 Weeks to 30 November 2014 £m	52 Weeks to 1 December 2013 £m	53 Weeks to 25 November 2012 £m
Trading Weeks	**52**	52	52	52	53
Gross Sales Ⓐ	**1,386.7**	1,204.4	1,026.5	852.4	731.9
Revenue	**1,271.0**	1,107.6	948.9	792.1	678.6
Gross Profit	**435.3**	375.1	312.9	247.5	207.3
EBITDA Ⓐ	**84.3**	81.5	71.6	45.8	34.5
Adjusted operating profit/(loss)[1]	**21.9**	19.1	14.2	1.0	5.4

1. Adjusted to exclude exceptional items and share of result from joint venture

	52 Weeks to 27 November 2016	52 Weeks to 29 November 2015	52 Weeks to 30 November 2014	52 Weeks to 1 December 2013	53 Weeks to 25 November 2012
Average orders per week	**230,000**	195,000	167,000	143,000	123,000
Average order size (£)[1,2]	**108.10**	111.15	112.66	113.53	112.13
CFC Efficiency (UPH)[3]	**160**	155	145	135	121
DPV/week	**176**	166	163	160	152
Product waste (%)	**0.7**	0.7	0.8	1.0	0.7
Items delivered exactly as ordered	**99.0**	99.3	99.3	99.0	98.0
Deliveries on time or early (%)	**94.9**	95.3	95.3	95.2	92.7

1. Refers to Ocado.com orders and includes standalone orders for Fetch.co.uk, Sizzle.co.uk and Fabled.com. This is after cancelled orders are deducted.
2. Average order size excludes destination sites from 2014 onwards, prior to this destination sites were not material.
3. Mature CFC operations (CFC is considered mature if it had been open 12 months by the start of the half year reporting period)

A See Alternative Performance Measures on page 194

Financial Calendar

14 March 2017	Q1 Trading Statement
3 May 2017	Annual General Meeting
5 July 2017	Half Year Results Announcement
19 September 2017	Q3 Trading Statement
14 December 2017	Q4 Trading Statement
6 February 2018	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 Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4ZF

Ocado Group plc
Titan Court
3 Bishops Square
Hatfield Business Park
Hatfield
Hertfordshire
AL10 9NE
United Kingdom

Tel: +44(0) 1707 227800
Fax: +44(0) 1707 227999

www.ocadogroup.com