

Directors' report

Directors' report and business review

The business review sets out a comprehensive review of the performance of the business of the Group for the 52 weeks ended 27 November 2011 and of future developments.

The Companies Act requires the Company to set out in this annual report a fair review of the business of the Group during the 52 weeks ended 27 November 2011, including an analysis of the position of the Group at the end of the period, analysis of the Group's performance using key performance indicators and a description of the principal risks and uncertainties facing the Group (known as the "business review"). The information that fulfils the business review requirements is set out in the our performance section on pages 2 to 9, the about Ocado section on pages 10 to 17, the principal risks and uncertainties description on pages 18 to 23, the corporate social responsibility report on pages 24 to 27 and the Directors' report (set out below) of this annual report. The business review and the Directors' report (or parts thereof) are the "management report" for the purposes of the Disclosure and Transparency Rule 4.1.8. This information (together with the sections of the annual report incorporated by reference) consist of a Directors' report that has 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.

Principal activities

Ocado Group plc (the "Company") is a public limited company incorporated and registered in England and Wales under the Companies Act with registered number 07098618. Its registered office is Titan Court, 3 Bishops Square, Hatfield Business Park, Hatfield, Hertfordshire, AL10 9NE.

The Company is the holding company of the Ocado group of subsidiary companies (the "Group"). The principal activity of the Company is that of a holding company. The Company owns directly the entire issued share capital of Ocado Holdings Limited which holds the entire issued share capital of Ocado Limited. The principal activities of Ocado Limited are the retailing and distribution of grocery and consumer goods. Further information in relation to the principal activities of the subsidiary undertakings can be found in Note 5.1 to the consolidated financial statements.

The Group currently operates out of a dedicated CFC based at a site in Hatfield, Hertfordshire, together with ten operational Spokes based in Bristol, Coventry, Dartford, Leeds, Manchester, Oxfordshire (which started operating after the end of the period) Southampton, Weybridge, White City and Wimbledon.

Corporate governance

The statement of corporate governance as required by the Disclosure and Transparency Rule 7.2.1 is set out on pages 30 to 45 and is incorporated by reference into this Directors' report.

Risk management

The Group's procedures for managing risk are described on page 44 and the Group's principal risks and uncertainties are described on pages 18 to 23 and those descriptions are incorporated by reference into this Directors' report.

The Group's policies and strategies for managing financial risk, to the extent material to assessing the financial performance or position of the Group, are summarised in Note 4.5 to the consolidated financial statements, in the principal risks and uncertainties description as set out on page 21, and in the statement of corporate governance as set out on page 44, as required by Disclosure and Transparency Rules 4.1.8 and 4.1.11.

Employee involvement, equal opportunities and disabled employees

The corporate social responsibility section on pages 25 to 26 sets out the Group's policies on employee engagement and disabled employees. They are incorporated by reference into this Directors' report.

Charitable and political contributions

The particulars of the Group's charitable and political contributions made during the period are set out in the corporate social responsibility section on pages 26 to 27. They are incorporated by reference into this Directors' report.

Board of Directors

The membership of the Board and biographical details of the Directors are given in the Board of Directors section on pages 28 to 29 and are incorporated into this Directors' report by reference. The changes to the membership of the Board during the period are described in the statement of corporate governance on pages 36 to 37.

Appointment and replacement of Directors

The Articles set out the rules applicable to the appointment, retirement and removal of a Director of the Company, described below.

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

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

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

Vacation of office: The office of a Director shall be vacated if: (i) he resigns or offers to resign and the Board resolve to accept such offer; (ii) his resignation is requested by all of the other Directors and all of the other Directors are 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 or compounds with his creditors generally; (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. If the office of a Director is vacated for any reason, he must cease to be a member of any committee of the Board.

Directors' interests

The Directors' beneficial interests in the shares of the Company are shown in the Directors' remuneration report as set out on pages 51 to 52.

Directors' indemnity

The Directors' indemnity arrangements are described in the statement of corporate governance as set out on page 34.

Amendment of the Articles

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

Share capital

Pursuant to the Disclosure and Transparency Rules, the Listing Rules, the Companies Act and the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (No. 410), the Directors' report must contain certain disclosures regarding the Company's share capital and the rights and restrictions attaching to the Company's shares, as set out in the following sections. These statements are included so as to comply with Disclosure and Transparency Rule 7.2.6 (regarding the statement of corporate governance).

The Company's authorised and issued ordinary share capital as at 27 November 2011 comprised a single class of ordinary shares. The shares have a nominal value of 2 pence each. The ISIN of the shares is GB00B3MBS747.

Details of movements in the Company's issued share capital can be found in Note 4.6.1 to the consolidated financial statements. During the period, shares in the Company were issued as set out in Note 4.6.1 to the consolidated financial statements (disclosed in accordance with Listing Rule 9.8.4(7)).

Rights attaching to shares

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

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

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

No shareholder holds shares in the Company which carry special rights with regard to control of the Company. There are no shares relating to an employee share scheme which have rights with regard to control of the Company that are not exercisable directly and solely by the employees, other than in the case of the Group's joint share ownership scheme (the "JSOS") where 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).

Directors' report continued

Share rights: Subject to the Companies Act, any resolution passed by the Company under the Companies Act and other shareholders' rights, shares may be issued with such rights and restrictions as the Company may by ordinary resolution decide, or (if there is no such resolution or so far as it does not make specific provision) as the Board may decide. Such rights and restrictions will apply as if they were set out in the Articles. Redeemable shares may be issued. The Directors can decide on the terms and conditions and the manner of redemption of any redeemable shares. Such terms and conditions will apply as if they were set out in the Articles. Subject to the Articles, the Companies Act and other shareholders' rights, the unissued shares in the Company are at the disposal of the Board.

Voting rights

Shareholders will be entitled to vote at a general meeting or class meeting of the Company whether on a show of hands or a poll, as provided in the Companies Act. The Companies Act provides that: (A) on a show of hands every member present in person has one vote and every proxy present who has been duly appointed by one or more members will have one vote, except that a proxy has one vote for and one vote against if the proxy has been duly appointed by more than one member and the proxy has been instructed by one or more members to vote for and by one or more other members to vote against. For this purpose the Articles provide that, where a proxy is given discretion as to how to vote on a show of hands, this will be treated as an instruction by the relevant shareholder to vote in the way that the proxy decides to exercise that discretion; and (B) on a poll every member has one vote per share held by him and he may vote in person or by one or more proxies. Where he appoints more than one proxy, the proxies appointed by him taken together shall not have more extensive voting rights than he could exercise in person. This is subject to any rights or restrictions which are given to any shares or on which shares are held. If more than one joint shareholder votes (including voting by proxy), the only vote which will count is the vote of the person whose name is listed before the other voters on the register for the share.

Deadlines for exercising voting rights: 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.

Restrictions on voting rights: No shareholder shall be entitled to vote at any general meeting or class meeting in respect of any share held by him if any call or other sum then payable by him in respect of that share remains unpaid or if a member has been served with a restriction notice (as defined in the Articles), described below.

JSOS voting rights: Disclosed in accordance with the Listing Rules 9.8.4(12) and 9.8.4(13) and the relevant company regulation, Appleby Trust (Jersey) Limited, the independent company which is the trustee of the Company's employee benefit trust (the "EBT Trustee") will not normally exercise the voting rights of unvested shares held under the JSOS but may exercise such rights on vested shares at the request of the relevant participants of the JSOS. Of the Company's issued shares, 36,305,099 ordinary shares are held by Greenwood Nominees Limited on behalf of the EBT Trustee, at period end. In respect of 7,957,000 ordinary shares which have vested under the JSOS and remain in the trust at period end, the EBT Trustee may vote in respect of such ordinary shares at the request of a participant. The total of 36,305,099 ordinary shares held by Greenwood Nominees Limited on behalf of 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 the Company exclude the 36,305,099 ordinary shares held by the EBT Trustee. However, the Company does not hold any shares in treasury.

Dividends and other distributions

The Company may by ordinary resolution from time-to-time declare dividends not exceeding the amount recommended by the Board. Subject to the Companies Act, the Board may pay interim dividends, and also any fixed rate dividend, whenever the financial position of the Company, in the opinion of the Board, justifies its payment. If the Board acts in good faith, it is not liable to holders of shares with preferred or *pari passu* rights for losses arising from the payment of interim or fixed dividends on other shares. Except insofar as the rights attaching to, or the terms of issue of, any share otherwise provide, all dividends shall be apportioned and paid pro rata according to the amounts paid up on the share during any portion of the period in respect of which the dividend is paid. Except as set out above, dividends may be declared or paid in any currency.

The Board may, if authorised by an ordinary resolution of the Company, offer shareholders (excluding any member holding shares as treasury shares) in respect of any dividend the right to elect to receive shares by way of scrip dividend instead of cash.

Any dividend unclaimed after a period of 12 years from the date when it was declared or became due for payment shall be forfeited and revert to the Company. The Company may stop sending cheques, warrants or similar financial instruments in payment of dividends by post in respect of any shares or may cease to employ any other means of payment, including payment by means of a relevant system, for dividends if either (i) at least two consecutive payments have remained uncashed or are returned undelivered or that means of payment has failed or (ii) one payment remains uncashed or is returned undelivered or that means of payment has failed and reasonable enquiries have failed to establish any new postal address or account of the holder. The Company may resume sending dividend cheques, warrants or similar financial instruments or employing that means of payment if the holder requests such resumption in writing.

Restriction on dividends: The Board may withhold payment of all or any part of any dividends or other monies payable in respect of the Company's shares from a person with a 0.25 per cent. interest (as defined in the Articles) if such a person has been served with a restriction notice (as defined in the Articles) after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Act.

JSOS dividend rights: Disclosed in accordance with the Listing Rules 9.8.4(12) and 9.8.4(13) and the relevant company regulation, shares held under the JSOS will not receive any dividends paid (if any), but the hurdles of the JSOS would be reduced proportionally by the amount of the dividend payment so as not to distort the value of the JSOS participants' interests in the shares.

Restrictions on transfer of securities

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

The Company may, under the Companies Act, send out statutory notices to those it knows or has reasonable cause to believe have an interest in its shares, asking for details of those who have an interest and the extent of their interest in a particular holding of shares. When a person receives a statutory notice and fails to provide any information required by the notice within the time specified in it, the Company can apply to the court for an order directing, among other things, that any transfer of shares which are the subject of the statutory notice is void.

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

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

Other than as described above, the Company is not aware of any agreements existing at the end of the period between holders of securities that may result in restrictions on the transfer of securities or that may result in restrictions on voting rights.

Variation of rights

Subject to the Companies Act, rights attached to any class of shares may be varied with the written consent of the holders of not less than three-fourths in nominal value of the issued shares of that class (calculated excluding any shares held as treasury shares), or with the sanction of a special resolution passed at a separate general meeting of the holders of those shares. At every such separate general meeting (except an adjourned meeting) the quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of the class (calculated excluding any shares held as treasury shares).

The rights conferred upon the holders of any shares shall not, unless otherwise expressly provided in the rights attaching to those shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* with them.

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Powers for the Company issuing shares

Subject to the provisions of the Companies Act, any equity securities issued by the Company for cash must first be offered to shareholders in proportion to their holdings of shares. The Companies Act and the Listing Rules allow for the disapplication of pre-emption rights which may be waived by a special resolution of the shareholders, either generally or specifically, for a maximum period not exceeding five years. By written resolutions of the Company's shareholders passed on 11 May 2011, it was resolved that:

- (1) The Board be authorised to allot shares in the Company and to grant rights to subscribe for or convert any security into shares in the Company:
 - (A) up to a nominal amount of £3,693,429 (such amount to be reduced by the nominal amount allotted or granted under paragraph (B) below in excess of such sum); and
 - (B) comprising equity securities (as defined in section 560(1) of the Companies Act) up to a nominal amount of £7,386,858 (such amount to be reduced by any allotments or grants made under paragraph (A) above) in connection with an offer by way of a rights issue: (i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and (ii) to holders of other equity securities as required by the rights of those securities or as the Board otherwise considers necessary,

and so that the Board may impose any limits or restrictions and make any arrangements which it considers necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter;

such authorities to apply until the end of the AGM (or, if earlier, until the close of business on 11 August 2012) but, in each case, during this period the Company may make offers and enter into agreements which would, or might, require shares to be allotted or rights to subscribe for or convert securities into shares to be granted after the authority ends and the Board may allot shares or grant rights to subscribe for or convert securities into shares under any such offer or agreement as if the authority had not ended.

- (2) The Board be given power to allot equity securities for cash under the authority given by that resolution and/or to sell ordinary shares held by the Company as treasury shares for cash as if section 561 of the Companies Act did not apply to any such allotment or sale, such power to be limited:

- (A) to the allotment of equity securities and sale of treasury shares for cash in connection with an offer of, or invitation to apply for, equity securities (but in the case of the authority granted under paragraph (B) of Resolution 1, by way of a rights issue only): (i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and (ii) to holders of other equity securities, as required by the rights of those securities, or as the Board otherwise considers necessary,

and so that the Board may impose any limits or restrictions and make any arrangements which it considers necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter; and

- (B) in the case of the authority granted under paragraph (A) of resolution 1 and/or in the case of any sale of treasury shares for cash, to the allotment (otherwise than under paragraph (A) above) of equity securities or sale of treasury shares up to a nominal amount of £554,014,

such power to apply until the end of the AGM (or, if earlier, until the close of business on 11 August 2012) but, in each case, during this period the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the power ends and the Board may allot equity securities (and sell treasury shares) under any such offer or agreement as if the power had not ended.

These standard authorities for issuing shares on a non-pre-emptive basis for cash may be renewed annually. The Directors will seek to renew these authorities at the Company's AGM as set out in the Notice of Meeting.

Powers for the Company buying back its own shares

The description below concerning the Company acquiring its own shares is made in accordance with the Disclosure and Transparency Rule 4.1.1(4), Listing Rule 9.8.6(4) and the relevant company regulation. The Company may purchase its shares only out of distributable reserves or the proceeds of a new issue of the Company's shares made for the purpose of funding the repurchase.

By resolutions of the Company's shareholders passed on 11 May 2011, it was resolved that the Company be authorised for the purposes of section 701 of the Companies Act to make one or more market purchases (as defined in section 693(4) of the Companies Act) of its ordinary shares of 2 pence each, such power to be limited:

- (A) to a maximum number of 55,401,437 ordinary shares;
- (B) by the condition that the minimum price which may be paid for an ordinary share is 2 pence and the maximum price which may be paid for an ordinary share is the highest of:
- (i) an amount equal to 5% above the average market value of an ordinary share for the five business days immediately preceding the day on which that ordinary share is contracted to be purchased; and
 - (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venues where the purchase is carried out, in each case, exclusive of expenses,

such power to apply until the end of the AGM (or, if earlier, 11 August 2012) but in each case so that the Company may enter into a contract to purchase ordinary shares which will or may be completed or executed wholly or partly after the power ends and the Company may purchase ordinary shares pursuant to any such contract as if the power had not ended.

This standard authority for the Company to purchase its shares may be renewed annually. The Directors will seek to renew this authority at the Company's AGM on the terms set out in the Notice of Meeting.

The Company has not acquired its shares during the period or a previous period. The Company did not hold or dispose of any shares in the Company that were acquired by it in a previous period. It is the Company's present intention to cancel any shares it buys back in future, rather than hold them in treasury. The Company's shares were not made the subject of a lien or other charge taken by the Company.

Significant shareholders

As required under Listing Rule 9.8.6(2) and relevant company regulations, the table below sets out the notifications that the Company had received from its shareholders of the significant direct or indirect holdings (being 3 per cent. or more) in the Company's shares, pursuant to Disclosure and Transparency Rule 5 (which were also published on a Regulatory Information Service and on the Company's Corporate website), during the period (up to 27 November 2011):

	Number of ordinary shares	Percentage of issued share capital at notification date	Nature of holding
The London and Amsterdam Trust Company Limited	61,512,060	11.11	Direct & Indirect
Hamilton Trust Company Limited as trustee for the Apple II Trust	61,880,100	11.08	Direct
FMR LLC	54,761,301	9.88	Indirect
The Nomad Investment Partnership L.P.	28,423,655	5.09	Not stated
The Steiner 2008 Millennium Trust	27,687,600	5.00	Direct & Indirect
FIL Limited	27,287,909	4.93	Indirect
The Goldman Sachs Group, Inc	Below 3%	Below 3%	Not stated
UBS Investment Bank	Below 3%	Below 3%	Direct & Indirect
Tempest Capital Limited	Below 3%	Below 3%	Not stated
Walker Fund Services Limited	Nil	Nil	N/A
John Lewis Partnership Pensions Trust	Nil	Nil	N/A

These figures represent the number of shares and percentage held as at the date of notification to the Company. As at period end the Company's issued share capital consisted of 558,362,139 issued ordinary shares.

As required under Listing Rule 9.8.6(2)(a) and relevant company regulations, the table below sets out the notifications that the Company had received from its

shareholders of the significant direct or indirect holdings (being 3 per cent. or more) in the Company's shares, pursuant to Disclosure and Transparency Rule 5 (which were also published on a Regulatory Information Service and on the Company's Corporate website) from 28 November 2011 to 16 March 2012 (being not more than one month prior to the likely date of the Notice of Meeting):

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	Number of ordinary shares	Percentage of issued share capital at notification date	Nature of holding
The Nomad Investment Partnership L.P.	33,742,828	6.04	Direct & Indirect
FIL Limited	28,520,881	5.1	Indirect
Manning and Napier Advisers LLC	26,914,371	5.00	Direct
UBS Investment Bank	Below 3%	Below 3%	Direct & Indirect

These figures represent the number of shares and percentage held as at the date of notification to the Company. As at 16 March 2012 the Company's issued share capital consisted of 558,702,597 issued ordinary shares.

Important contracts or arrangements

Under section 417(5)(c) of the Companies Act, the Company is required to disclose information about persons with whom the Company has contractual or other arrangements which are essential to the business of the Company.

Whilst the loss of or disruption to certain of the Group's supply, financing or manufacturing arrangements (for example vans and CFC machinery) or other key contracts could affect the operations or growth of the Group until a replacement solution is found, none are considered to be essential to the business of the Company.

However, as noted in the principal risks and uncertainties, Ocado's sourcing arrangements, reputation and brand are based, at least in part, on its relationship with Waitrose. If the Sourcing Agreement with Waitrose were to end or if Waitrose were unable to source products for the Group, Ocado would need to engage additional personnel to: (i) find or create replacement own-label products; and (ii) find appropriate suppliers and negotiate equivalent prices itself. Waitrose, through whom Ocado sources the vast majority of products it sells (and whose own-label products it sells), is a UK supermarket chain and the food division of the privately owned retailer John Lewis Partnership. Waitrose has over 270 branches across the UK, sells high quality food and places an emphasis on the provenance and traceability of the food that it sells. In its last financial year (ended 29 January 2011) it had gross sales of £4.97 billion and made an operating profit of £274.9 million (source: www.johnlewispartnership.co.uk).

The Group's £100 million credit facility with Barclays Bank plc, HSBC Bank plc and Lloyds TSB Bank plc, described below, may be terminated in certain circumstances, including if the Group were to breach one or more of the covenants under this facility which would put the Group in default of this facility. This would jeopardise the Group's expansion plans and threaten the Group's ability to continue as a going concern. Details concerning each of the lenders under the facility can be found on, in the case of Barclays Bank, its website (<http://group.barclays.com/>), in the case of HSBC Bank, its website (www.hsbc.com) and in the case of Lloyds TSB Bank, its website (www.lloydstsb.com/).

The principal risks and uncertainties section on pages 18 to 23 describes these risks and the other principal risks and uncertainties facing the Group that may have an adverse impact on the Group's operations, performance or future prospects.

Contracts of significance

For the purposes of Listing Rule 9.8.4(10), there were no contracts of significance subsisting during the period to which the Company or any Group subsidiary were a party and in which a Director of the Company were materially interested, other than to note that the Directors were party to certain lock-up agreements with the Company that were entered into in July 2010 in connection with the Company's Admission, whereby the Directors agreed to certain lock-up arrangements that prevented the transfer of their shares in the Company (subject to certain exceptions). These lock-up agreements ended during the period. There were no contracts of significance subsisting during the period between the Company or any Group subsidiary and a controlling shareholder of the Company.

Change of control under 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 of this kind are as follows:

Sourcing Agreement: If the parties terminate the Sourcing Agreement after certain competitors of Waitrose or John Lewis acquire 50 per cent. or more of the shares or control of the Company's Board, Ocado is obliged to pay Waitrose the lower of £40 million and 4 per cent. of the market capitalisation of the Company. This change of control provision will cease to bind the parties if, prior to the change of control, any party has already given a valid notice of termination.

Credit facility agreement: As noted above, the Group has a £100 million credit facility with Barclays Bank plc, HSBC Bank plc and Lloyds TSB Bank plc for the acquisition of land, building materials, plant, machinery and equipment, for CFC1 and/or CFC2 and/or the Spokes. If Ocado or Waitrose gives notice to terminate the Sourcing Agreement it will be an event of default under this facility.

HSBC Equipment Finance (UK) Limited: On 22 July 2004 Ocado (as lessee) and HSBC Equipment Finance (UK) Limited (as lessor) entered into a master sale and leaseback agreement. Since then, there have been 24 sale and leaseback agreements covering the majority of the conveyor systems and associated capital goods that have been added to CFCI since August 2004. Of these agreements, 18 remain at period end with total amounts outstanding of £19.5 million. The agreement may be terminated on one month's notice by either party, but without prejudice to rights accrued under any leasing agreements made thereunder. Pursuant to side letters between Ocado and HSBC varying the original agreement, HSBC is able to terminate the agreement if there is a change of control of the Company or if the Sourcing Agreement is terminated for any reason.

Change of control for Director and employee agreements

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

Results and dividends

The Group's results for the period are set out in the consolidated income statement on page 67. The Group's loss before tax for the period amounted to £2.4 million (2010: £12.2 million).

The Directors do not propose to pay a dividend for the period (2010: nil).

Interest capitalised

The amount of the interest capitalised by the Group is set out in Note 4.3.1 to the consolidated financial statements on page 93. Cumulative capitalised borrowing costs were £699,000 (2010: £147,000). There is no immediately available tax relief related to the capitalised borrowing costs.

Post balance sheet events

Important events occurring after the balance sheet date that affect the Group are disclosed in Note 5.5 to the consolidated financial statements.

Market value of properties

The Directors are of the opinion that the aggregate market value of the Group's interests in land as at 27 November 2011 is in line with the net book value as set out in Note 3.2.1 to the consolidated financial statements.

Creditor payment policy

It is the Group's policy for all trade payables to agree payment terms in advance of the supply of goods with the supplier; to make the supplier aware of the terms of payment and to adhere to those payment terms. The Company is a holding company and therefore has little trade payables. The Group did not follow any code or standard on payment practice in the period. The average trade payables payment period of the Group's main trading company, Ocado Limited, for the 52 weeks ended 27 November 2011 was 26 days (2010: 26 days), based on the ratio of its average trade payables relating to resale goods for the period to the amounts invoiced during the year by those trade payables.

Research and development and future developments

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

The Group's likely future developments including its strategy are described in the about Ocado section on pages 10 to 17.

Business model and strategy

As required by the 2010 Code, the about Ocado section on pages 10 to 17 describes the Company's business model for sustainable growth. This provides an explanation of the basis on which the Group generates value and preserves it over the long-term and its strategy for delivering its objectives.

Directors' report continued

Going concern

In adopting the going concern basis for preparing the financial statements, the Directors have made appropriate enquiries and have considered the Group's cash flows, liquidity position and borrowing facilities and business activities as set out on page 56 and the Group's principal risks and uncertainties as set out on pages 18 to 23. Based on the Group's rolling forecasts, the Directors are satisfied that the Company, and the Group as a whole, have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements have been prepared on the going concern basis in accordance with Going Concern and Liquidity risk: Guidance for Directors of UK Companies 2009, published by the Financial Reporting Council in October 2009.

The principal risks and uncertainties section on pages 18 to 23 describes the principal risks and uncertainties facing the Group including those that may have an adverse impact on the Group's operations, performance or future prospects and the going concern basis noted above. The Group's cash flows, liquidity position and borrowing facilities and business activities are described on page 56 and set out in the Group's financial statements on pages 67 to 114. Further information on going concern is set out in Section 1 to the consolidated financial statements on page 73.

The Company's going concern statement has been reviewed by the Company's auditors, PricewaterhouseCoopers LLP, as required by Listing Rule 9.8.10R(1).

Borrowings and covenants

The most material of the Group's borrowing facilities is its £100 million credit facility with Barclays Bank plc, HSBC Bank plc and Lloyds TSB Bank plc. The facility contains customary covenant provisions in respect of net debt, gross debt and interest cover. The financial covenants are as follows:

- Net debt ratio – the net debt financial covenant requires that the ratio of net debt to adjusted EBITDA at the end of each quarter period must not exceed 3:1 for each test period until the test period falling in November 2011, must not exceed 3.25:1 for the test period falling in February 2012, must not exceed 3.5:1 for each test period thereafter until the test date falling in August 2013, and must not exceed 3.25:1 thereafter; and
- Interest cover ratio – the interest cover financial covenant requires that the ratio of EBITDA to net interest at the end of each quarter period be not less than 3:1 until the test date falling in May 2011, not less than 3.5:1 thereafter until the test date falling in August 2011 and not less than 4:1 thereafter; and
- Gross debt ratio – the gross debt financial covenant requires that the ratio of gross debt to adjusted EBITDA must not exceed 5.5:1 for any test period in respect of which EBITDA is less than £35 million.

EBITDA in respect of a test period refers to EBITDA for the relevant prior 12 month period. All covenant tests which exist under the terms of the facility are tested quarterly.

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

	Covenant	Actual
Net debt/EBITDA	<3:1	0.74:1
Fixed interest cover	>4:1	5.76:1
Gross debt/EBITDA	<5.5:1	4.04:1

At the date of entering the facility agreement on 5 July 2010, the net debt covenant applicable to the life of the facility was not in excess of 3:1. During the period the Group agreed with the lenders under the facility that the net debt ratio financial covenant be amended such that the ratio be increased from 3:1 to the new net debt ratios outlined above.

Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report, the Directors' remuneration report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the result of the Company and the Group for that period. In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

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

Disclosure of information to auditors

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

Independent auditors

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

Forward-looking statements

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

Approved by the Board

Neill Abrams

Company Secretary and Legal and Business Affairs Director