Notes to the consolidated financial statements

Section 1 — Basis of preparation

General information
Ocado Group plc (hereafter "the Company") is incorporated and domiciled in the United Kingdom. The address of its registered office is Titan Court, 3 Bishops Square, Hatfield Business Park, Hatfield, Hertfordshire, AL10 9NE. The financial statements comprise the results of the Company and its subsidiaries (hereafter "the Group"), see Note 5.1. The financial period represents the 52 weeks ended 27 November 2011. The prior financial period represents the 52 weeks ended 28 November 2010.

Basis of preparation
The financial statements have been prepared in accordance with the Listing Rules and the Disclosure and Transparency Rules of the UK Financial Services Authority (where applicable), International Financial Reporting Standards (IFRS's) and International Financial Reporting Interpretation Committee (IFRS IC) interpretations as endorsed by the European Union ("IFRS-EU"), and with those parts of the Companies Act applicable to companies reporting under IFRS.

The financial statements are presented in sterling, rounded to the nearest thousand (£'000) unless otherwise stated. They have been prepared under the historical cost convention, except for derivative financial instruments that have been measured at fair value.

The financial statements have been prepared on the going concern basis, which assumes that the Group will continue to be able to meet its liabilities as they fall due for the foreseeable future.

Standards, amendments and interpretations adopted by the Group in 2010/11 or issued but are not yet effective, and which have not been early adopted by the Group:
The Group has considered the following new standards, interpretations and amendments to published standards that are effective for the Group for the financial year beginning 29 November 2010 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.

- IFRIC 15, "Arrangements for the Construction of Real Estate". This IFRIC was effective 1 January 2009 but EU endorsed for 1 January 2010.
- IFRIC 19, "Extinguishing Financial Liabilities with Equity Instruments"
- Amendments to various IFRSs and IASs arising from the IASB's annual improvements project in 2009

The following new standards, interpretations and amendments to published standards and interpretations which are relevant to the Group have been issued but are not effective for the financial year beginning 29 November 2010 and have not been adopted early:

- IFRS 9, "Financial Instruments"*
- IFRS 10, "Consolidated Financial Statements"*
- IFRS 11, "Joint Arrangements"*
- IFRS 12, "Disclosure of Interests in Other Entities"*
- IFRS 13, "Fair Value Measurement"*
- IAS 24 (revised), "Related Party Disclosures"
- IAS 27 (revised 2011), "Separate Financial Statements"*
- IAS 28 (revised 2011), "Investments in Associates and Joint Ventures"*
- Amendments to various IFRSs and IASs arising from the IASB's annual improvements project in 2010

* Not yet endorsed by the EU.

Basis of consolidation
The consolidated financial statements include the financial statements of all subsidiaries. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control over the operating and financial decisions is obtained and cease to be consolidated from the date on which control is transferred out of the Group. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain economic benefits from its activities.

All intercompany balances and transactions, including recognised gains arising from inter-group transactions, have been eliminated in full. Unrealised losses are eliminated in the same manner as recognised gains except to the extent that they provide evidence of impairment.

Accounting policies
The principal accounting policies adopted in the preparation of these financial statements are set out in the relevant notes to these financial statements. Accounting policies not specifically attributable to a note are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Foreign currency translation
Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). Sterling is the Company's functional and the Group's presentation currency.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

Section 1 — Basis of preparation continued

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

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.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

The accounting policies have been applied consistently by the Group to all periods presented in the financial statements.

Critical accounting estimates and assumptions

The preparation of financial statements in conformity with IFRS-EU requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are set out below and in more detail in the related notes:

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

Going concern basis including its effect on the impairment of assets

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

Under all the above scenarios the Directors have a reasonable expectation that the existing facilities provide sufficient funding for the Group to operate as a going concern for the foreseeable future. As part of the above, the Board continues to monitor the timing and amounts of uncommitted capital projects. Expenditure on these capital projects and other discretionary expenditure can be delayed if the Group is performing at the lower end of the range of these scenarios.

After making appropriate enquiries and having considered the business activities as set out on page 56 and the Group's principal risks and uncertainties as set on pages 18 to 23, the Directors are satisfied that the Company, and the Group as a whole, have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

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

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

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