

Statement of corporate governance

Introduction

The following sections explain how the Company applies the main principles set out in the UK Corporate Governance Code, June 2010 issued by the Financial Reporting Council (the "2010 Code"), as required by the Listing Rules of the Financial Services Authority and meets the relevant information provisions of the Disclosure and Transparency Rules of the Financial Services Authority. This statement of corporate governance covers the following:

- the role of the Board;
- the Board's effectiveness;
- the Board's committees;
- the Group's risk management and internal control framework; and
- relations with the Company's shareholders and the AGM.

The Company has applied the principles and complied with the provisions of the 2010 Code during the period, save as described below. Where the Company has not complied, the reasons for non-compliance are stated, including the period where it has not complied (if relevant) and the relevant provisions in the 2010 Code. Recognising that it is a newly listed company (with its Admission on 26 July 2010) the Board has the goal of moving the Company towards full compliance with all provisions of the 2010 Code as swiftly as practicable. The Company will continue to put in place new governance arrangements in order to meet that objective.

Further information on the 2010 Code can be found at www.frc.org.uk.

This separate statement of corporate governance forms part of the Directors' report as required by the Disclosure and Transparency Rule 7.2.1 and accordingly is approved by the Board and signed on behalf of the Board by a Director. Certain parts of this statement of corporate governance have been reviewed by the Company's auditors, PricewaterhouseCoopers LLP, for compliance with the 2010 Code to the extent required, as mandated by Listing Rule 9.8.10R(2).

For the Chairman's statement on the Company's corporate governance see the Chairman's letter on page 3.

The Board

The Company is led by the Board. The names, responsibilities and details of the current (as at the date of this annual report) Directors on the Board are set out in the Board of Directors section on pages 28 to 29. During the period and following period end there were a number of changes to the Board, both on the executive and the non-executive sides.

Mark Richardson was appointed to the Board on 23 January 2012 to a newly created Board role of Operations Director. Mark was previously Ocado's Head of Technology. He is now responsible for the day-to-day running of the Ocado operation, including Customer Fulfilment Centres, logistics developments, business planning, engineering and IT. At this time, Jason Gissing, one of the co-founders of the business and current Executive Director; and Neill Abrams, current Executive Director and Legal and Business Affairs Director assumed changed executive responsibilities. Jason assumed the new Board position of Commercial Director, responsible for Ocado's retail activities, including buying, supplier and customer relationships, marketing and brand development. Neill assumed responsibility for HR, which was previously part of Jason's former role.

The Company appointed three Non-Executive Directors to the Board. Douglas McCallum joined the Board on 3 October 2011 as a Non-Executive Director. Wendy Becker was appointed to the Board as a Non-Executive Director; such appointment to take effect on 30 March 2012. On 14 March 2012, the Company announced the appointment of Alex Mahon as a new Non-Executive Director; such appointment to commence on 1 June 2012.

The Company announced on 23 January 2012, that Executive Director and Chief Financial Officer, Andrew Bracey, had tendered his resignation from the Board, and that he was expected to leave following publication of this annual report. Andrew Bracey will join Michael Page International plc as its new Chief Financial Officer. A formal process to identify his successor is ongoing.

The Company also announced on 23 January 2012 the retirement of David Young, a Non-Executive Director, from the Board, such retirement to take effect on 23 May 2012, being the date of the Company's AGM.

The Non-Executive Director, Patrick Lewis, resigned from the Board effective on 15 February 2011. As stated in the Company's Prospectus dated 6 July 2010, the John Lewis Pension Fund agreed with the Company that Patrick Lewis, a Non-Executive Director originally appointed to the Board in October 2009 by the John Lewis Pension Fund, would step down from the Board if the John Lewis Pension Fund's holding of ordinary shares in Ocado fell below 10 per cent. of the issued ordinary share capital of the Company. On 11 February 2011, the Company announced that the John Lewis Pension Fund had sold its entire shareholding in the Company. Accordingly, Patrick Lewis resigned from the Board, as agreed.

Director election

The rules that the Company has about the appointment and replacement of Directors are described in the Directors' report on pages 56 to 57.

In order to maintain high standards of corporate governance, the Articles require each Director to retire at every annual general meeting (each Director may offer himself or herself for reappointment by the members at such meeting). The Directors (current at that time) were re-elected at the last annual general meeting on 11 May 2011. Each current Director, including the appointed Directors noted above, will seek re-election by shareholders at the Company's AGM on 23 May 2012, except Andrew Bracey who has tendered his resignation, David Young who will retire as Non-Executive Director and therefore will not be seeking re-election and Alex Mahon whose appointment is effective on 1 June 2012. A biography of each current Director (as at the date of this annual report) is set out in the Board of Directors section on pages 28 to 29.

Chief Executive Officer

The Company's Chief Executive Officer is Tim Steiner. His biographical details are set out on page 28.

The Chairman

Lord Grade joined the Board as an independent Non-Executive Director and Chairman in 2006. His biographical details are set out on page 28 and indicate the Chairman's significant time commitments outside of the Company. During the period these other commitments changed with Lord Grade's appointments as Director of WRG Worldwide Limited, a creative agency, and as a member of the Press Complaints Commission Limited.

Division of responsibilities between Chairman and Chief Executive Officer

There is a clearly established and long-standing division of responsibilities between the Chairman and the Chief Executive Officer which is set out in writing and has been approved by the Board. The Chairman is responsible for leadership of the Board, and ensuring its effectiveness. Lord Grade was responsible during the period for influencing the direction of the Board's agenda and ensuring that adequate time was allocated to discussing agenda items including the most material business matters, such as strategy.

The Chief Executive Officer is responsible for the day-to-day management, operations and results of the Group, executing the strategy once agreed by the Board and making proposals to the Board for the strategic development of the Group. He creates a framework of strategy, values, organisation and objectives to ensure the successful delivery of results, and allocates decision making and responsibilities accordingly. He takes a leading role, with the Chairman, in the relationship with all external parties and in promoting the Company.

Senior Independent Director

David Grigson, who joined the Board as an independent Non-Executive Director in February 2010, is the Board's Senior Independent Director. His biographical details are set out on page 28. The Senior Independent Director's role is to provide a sounding board for the Chairman and to serve an intermediary for the other Directors when necessary. The Senior Independent Director is available to shareholders of the Company to assist in resolving concerns of such shareholders.

Independence

The 2010 Code recommends that at least half of the board of directors of a UK listed company, excluding the chairman, should comprise non-executive directors determined by the board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the director's judgement.

The Board, as at the date of this annual report, comprises 12 members. The Directors expect that at the time that the various Board appointments and resignations (outlined above) take effect the Board will comprise 13 members, including the Chairman, five independent Non-Executive Directors, five Executive Directors and two Non-Executive Directors who are not deemed to be independent for the purposes of the 2010 Code. The Company does not therefore comply with the relevant requirements of the 2010 Code (provision B.1.1) in relation to the balance of Executive and independent Non-Executive Directors.

The Company expects that as existing members of the Board step down and new directors are appointed, the Company will become compliant with the 2010 Code in this respect. The Board believes that providing some continuity of leadership is important and therefore has taken a measured approach to transforming the Board to one that is compliant with the independence requirements of the 2010 Code. In due course, the re-composed Board (including the Director appointees) will comprise eight Non-Executive Directors, of which the Chairman, David Grigson, Ruth Anderson, Douglas McCallum, Wendy Becker and Alex Mahon are deemed independent as defined in the 2010 Code. However in respect of the other Non-Executive Directors:

- Robert Gorrie is not deemed independent for the purposes of the 2010 Code because he was an Executive Director of Ocado from April 2000 until April 2006 and has been a Non-Executive Director since May 2006. He also provides consulting services to the Group under a separate consulting agreement and acts as chairman of the Ocado Council; and
- Jörn Rausing is not deemed independent for the purposes of the 2010 Code because the Apple II Trust (of which he is a beneficiary) is a major shareholder of the Company.

Statement of corporate governance continued

Non-Executive Directors

The Non-Executive Directors have wide and varied skills and commercial experience which they bring to the deliberations of the Board and the Board committees, as well as their independent judgment on Group strategy, risk and performance. The Board considers that its size and composition and that its balance of skills and experience is appropriate for the requirements of the business.

The Chairman seeks to ensure the effective contribution of the Non-Executive Directors and constructive relations between the Non-Executive Directors and the Executive Directors, particularly during discussions at Board meetings. At the Board's strategy conference held in June 2011, the Board discussed the Group's medium-term and long-term plans and objectives. The Non-Executive Directors debated such proposals presented by management and provided input to help develop these plans. Such constructive debates on Group strategy are considered by the Directors to be beneficial in that they assist the Company to focus its efforts and planning in the most effective areas for delivering business growth and to balance the risks associated with those changes.

As required under the 2010 Code, each Non-Executive Director's letter of appointment to the Board sets out clearly the expected time commitment from them to the Company and at the time of appointment the relevant Non-Executive Director confirmed that that he or she is able to devote sufficient time as is necessary to the performance of his or her duties. The Board is satisfied that each of the Non-Executive Directors has sufficient time available to devote to the Company.

The terms and conditions of appointment of the Non-Executive Directors are available for inspection at the Company's registered office (during normal business hours) and at the Company's AGM.

The Board's role

The Board is collectively responsible for the long-term success of the Company. Subject to the Articles, the Companies Act and any directions given by special resolution, the business of the Company will be managed by the Board who may exercise all of the powers of the Company.

The Board has a number of key responsibilities and formally reserved powers, as set out in the schedule of matters reserved for the Board. The Board has responsibility for the overall management of the Group and for setting and reviewing the Group's long-term objectives and commercial strategy, including determination of the nature and extent of the significant risks that the Board is willing to take to implement its commercial strategy. The Board has oversight of the Group's operations, including management and planning, sound risk management and internal control systems, adequate accounting and other records and compliance with statutory and regulatory obligations. Other reserved matters include approval of: the annual report and half-yearly report; the Group's budgets; the authority levels for capital

expenditure; the treasury policy; and any governance policies. The Board's role also includes oversight of the Group's capital structure including any share issues and share buy backs. The Directors report on pages 60 to 61 includes a description of the powers of the Directors to issue and buy back the Company's shares.

During the period, the Board's activities included:

- receiving reports from senior management on trading, business performance, financing and operational projects;
- receiving progress reports from senior management on the construction of CFC2 and on the development of capacity projects in CFC1;
- approving the annual budget and the business plan for the Group;
- reviewing and approving the Group's results announcements, the annual report and Notice of Meeting;
- receiving reports on and discussing various business development and strategic opportunities;
- receiving reports on and discussing the Group's marketing and procurement strategy and development of the customer offer;
- receiving update reports on health and safety, investor relations and legal and company secretary matters;
- receiving reports from the chairman of each of the Audit Committee, the Nomination Committee and the Remuneration Committee;
- discussing risk management and internal control and reviewing the Group's risk matrix;
- discussing succession plans and Board re-composition;
- approving new governance policies including the Group's anti-bribery policy; and
- approving various new share scheme issues including a second issue under the Group's JSOS scheme and a new share incentive plan.

In addition, the Board convened its strategy conference at which the Board discussed the Group's medium and long-term strategy and plans. Various papers were presented by senior management to the Board on potential projects for the growth of the business in future. Some of these plans were prioritised by the Board and were progressed over the period including the Group's expansion of its non-food product range.

The Board delegates to management the detailed implementation of matters approved by the Board and the day-to-day operational aspects of the business. The Executive Directors and the Management Committee meet twice weekly to review operational performance and to monitor implementation of certain projects. A project team meets frequently to monitor progress of development of the CFC2 project. Management has authority to undertake capital expenditure without Board approval up to certain pre-approved expenditure thresholds and above which the expenditure must be elevated to the Board for approval.

The Board delegates certain responsibilities to its principal committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee. The committees keep the full Board apprised of their work and refer matters requiring resolution to the full Board for approval as appropriate. The Audit Committee monitors the integrity of financial information and reviews the effectiveness of the financial controls and the internal control and risk management systems. The Remuneration Committee sets the remuneration policy for Executive Directors and determines their individual remuneration arrangements. The Nomination Committee recommends the appointment of Directors and has responsibility for evaluating the balance of the Board and for succession planning at Board level. Further

details concerning the committees of the Board are set out below, as required by Disclosure and Transparency Rules 7.2.7 and 7.2.8 and the 2010 Code.

Attendance

The table below shows the attendance of the Directors (during the period) at scheduled Board and Board committee meetings during the period. The Board had scheduled 11 Board meetings during the period and convened three additional ad hoc Board meetings. The composition of two of the Board committees changed during the period, as described in the Board committee's description set out below, hence some members of the committees did not attend all of the relevant committee meetings during the period.

	Board of Directors ¹		Audit Committee		Remuneration Committee		Nomination Committee	
	Actual	Possible	Actual	Possible	Actual	Possible	Actual	Possible
Executive Directors								
Tim Steiner	14	14	-	-	-	-	-	-
Neill Abrams	14	14	-	-	-	-	-	-
Andrew Bracey	14	14	-	-	-	-	-	-
Jason Gissing	13	14	-	-	-	-	-	-
Non-Executive Directors²								
Lord Grade (Chairman)	14	14	-	-	-	-	3	3
David Grigson	12	14	5	5	-	-	3	3
David Young	13	14	5	5	3	3	3	3
Jörn Rausing	11	14	-	-	2	3	2	3
Ruth Anderson	14	14	5	5	3	3	3	3
Robert Gorrie	14	14	5	5	3	3	3	3
Douglas McCallum ³	2	2	-	-	1	1	-	-
Former Directors								
Patrick Lewis ⁴	2	3	-	-	-	-	-	-

Notes:

¹ As noted above various Directors have joined the Board since the end of the period, namely Mark Richardson, Wendy Becker and Alex Mahon and so are not listed in the attendance table.

² Jörn Rausing, David Grigson and Patrick Lewis did not attend the Board meeting on 4 February 2011 as the date of Board meeting had been changed at short notice and these Directors already had prior commitments.

³ Douglas McCallum joined the Board of the Company on 3 October 2011.

⁴ Patrick Lewis resigned from the Board of the Company effective on 15 February 2011.

Statement of corporate governance continued

Information and professional development

The Chairman is responsible for ensuring that all Directors are properly briefed on issues arising at Board meetings and that they have full and timely access to relevant information. The quality and supply of information provided to the Board was reviewed as part of the Board evaluation exercise, noted below.

Non-Executive Directors appointed to the Board during the period participated in an induction programme including a CFC1 visit, work in CFC1 as a personal shopper and making deliveries accompanying a CSTM on a delivery route. The induction also includes meetings with members of senior management and receipt of an induction booklet comprising the Group's key Board and governance documents and policies.

The Board received reports and presentations from some members of senior management from time-to-time which help maintain the Non-Executive Directors' understanding of the business and the sector and maintain their links to the remainder of the business, on matters such as the non-food business plan, CFC2 planning and progress and succession planning. During the period a Board meeting was held at CFC1. This allowed the Non-Executive Directors the opportunity to see the development, testing or operation of various new capital projects at CFC1. A Board meeting is scheduled to be held at CFC2 in 2012.

The need for Director training is assessed by the Chairman from time-to-time. The Company Secretary, Neill Abrams, arranged for newly appointed Directors to receive information and a presentation on the duties and obligations of a listed company director. Training for Directors is available via various external advisers to the Company, on an ongoing basis to meet any particular needs. Following the end of the period, the Non-Executive Directors were invited to join a non-executive director network group which provides access to know-how on current issues relevant to the role of company director. Members of the Audit Committee receive written know-how and technical updates from the Company's auditors, PricewaterhouseCoopers LLP, to keep them abreast of the latest accounting, auditing and tax developments.

The committees have access to sufficient resources to discharge their duties, as required by the 2010 Code. In this regard, remuneration consultants had advised the Remuneration Committee on executive remuneration during the period. The Company retained the services of professional services consultants for the recruitment of new Directors. Members of the Board may take independent professional advice at the Company's expense in the furtherance of their duties.

Company Secretary

The Board is assisted by the Company Secretary (who is also the Legal and Business Affairs Director), Neill Abrams, who reports to the Chairman in respect of his core secretarial duties to the Board. All Directors have access to the advice and services of the Company Secretary. He has responsibility for ensuring that Board procedures are followed and for governance matters. The Company Secretary, under the direction of the Chairman, was responsible for ensuring good information flows within the Board and its committees, as required under the 2010 Code. The appointment and removal of the Company Secretary is one of the matters reserved for the Board.

Conflicts of interests

The Companies Act provides that directors must avoid a situation where they have, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with a company's interests. Directors of public companies may authorise conflicts and potential conflicts, where appropriate, if a company's articles of association permit.

Each Non-Executive Director's letter of appointment sets out the requirement for disclosing 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 them to disclose any conflicts of interests to the Company. No Director has declared to the Company any actual or potential conflicts of interest between any of his duties to the Company and his private interests and/or other duties, except in the case of an Executive Director who holds the position of Director of the Company and director of a number of Group subsidiary companies.

Whenever a Director takes on additional external responsibilities, the Board considers any potential conflicts that may arise. The Board will continue to monitor and review potential conflicts of interest on a regular basis.

Director insurance and indemnities

The Company maintains directors' and officers' liability insurance cover for its Directors and officers as permitted under the Company's Articles and the Companies Act. Such insurance policies were renewed during the period and remain in force. The Company also indemnifies 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 Company's Articles. An indemnity deed is usually entered into by a Director at the time of their appointment to the Board. Qualifying third party indemnity provisions (as defined by section 234 of the Companies Act) were in force during the period and remain in force for the benefit of the Directors (and any officer) of the Company or of any associated company.

Board performance evaluation

The effectiveness of the Board is important to the success of the Group and accordingly the Board considers that reviewing its own performance is helpful.

During the period, each of the Executive Directors was subject to a full performance evaluation from each other, the Management Committee and the Non-Executive Directors.

In addition, the Board carried out a Board evaluation in which all of the then current Directors participated (except those noted below). This evaluation covered the Board, the Remuneration Committee, the Nomination Committee, the Audit Committee and each of the Non-Executive Directors individually and was designed to assess how well they were performing collectively and individually, and how their performance could be improved.

These evaluations were based on a written questionnaire customised by the Company Secretary with support from an external consultant, Independent Audit Limited. The Board evaluation questionnaire covered the following key areas: strategy, leadership and accountability, Board effectiveness, quality of information presented to the Board, Board culture, risk governance and interaction with management. Each Board committee questionnaire sought to evaluate that committee's performance in fulfilling its functions and key responsibilities as set out in the relevant committee's terms of reference. The questionnaires were issue based with scoring, but the Directors were encouraged to expand on their scoring and assessments with additional comments, including with respect to areas for improvement.

The findings of the evaluations were reviewed by the Company Secretary and the Chairman and a report summarising the findings was provided to each Director. The Board discussed the Board evaluation report noting areas for improving effectiveness in future. The Chairman separately reviewed the individual Non-Executive Director performance evaluation reports.

In addition the findings of the Board committee evaluations were reviewed by the Company Secretary and each committee chairman and a report summarising the findings was delivered to each committee. The committees will use these evaluation findings as the basis for formulating plans for improving their effectiveness in future. The Remuneration Committee recommended that individual performance reviews form a formal part of the criteria taken into account in the Executive Director remuneration.

The Chairman and the Non-Executive Directors met without the Executive Directors being present, as required by the 2010 Code, to discuss the performance of the Board and the Executive Directors. The Senior Independent Director and the Non-Executive Directors also met without the Executive Directors or the Chairman being present, as required by the 2010 Code, and subsequently met with the Chairman to provide feedback.

The explanatory notes set out in the Notice of Meeting for the AGM state the reasons that the Board believes each Director proposed for re-election at the AGM should be re-appointed. The Board has based, in part, its recommendations for re-election on its review of the results from the Board evaluation process and the Chairman's review of individual evaluations which concluded that each Director's performance continues to be effective and that each Director has demonstrated substantial commitment to the role (including time for Board and committee meetings and other responsibilities).

Various Directors did not participate in the Board evaluation process but are standing for re-election at the AGM. Douglas McCallum joined the Board close to the period end and two Directors (namely Mark Richardson and Wendy Becker) joined or expressed their intention to join the Board after the end of the period. Consequently the Board based its recommendation to re-elect these Directors on the same reasoned principles and judgments it applied in appointing the Directors to the Board at that time. Finally, Alex Mahon who will join the Board after the AGM on 23 May 2012, is expected to stand for re-election at the 2013 annual general meeting.

During the period, the Board agreed to conduct a Board evaluation process facilitated by an independent third party in a future period, as required by the 2010 Code. The Directors considered that such review would be more valuable to the Board at a later point at which the re-composed Board had had sufficient time to settle, given the significant changes to its make-up during the period and intended changes in the short-term.

Statement of corporate governance continued

Board committees

As envisaged by the 2010 Code, the Board has established three Board committees: the Nomination Committee, the Remuneration Committee and the Audit Committee. The Chairman of each committee provides a report or update of each meeting of the respective committee to the Board at the subsequent Board meeting. The committees are described in more detail below, as required by Disclosure and Transparency Rules 7.1.5, 7.2.7 and 7.2.8 and the 2010 Code.

➤ Nomination Committee



The Nomination Committee's principal responsibility is to keep the composition and balance of the Board under review, consider succession planning, lead the process for Board appointments and make recommendations to the Board on all new appointments and re-appointments of Directors. The Nomination Committee also makes recommendations for the membership of the Audit Committee and the Remuneration Committee.

During the period the Nomination Committee met primarily to discuss the composition of the Board and the recruitment of new Non-Executive Directors to help with the Company's objective of moving the composition of the Board towards compliance with the 2010 Code. Subsequent to period end, it met to discuss the appointment of two new Non-Executive Directors and the process for the recruitment of a new Chief Financial Officer of the Group.

Meetings: The Nomination Committee meets when necessary and will normally meet no fewer than twice a year. The Nomination Committee met three times during the period.

Members and chairman: The Nomination Committee is chaired by the Senior Independent Director, David Grigson, and all of the other Non-Executive Directors (including the Chairman) are members of the Nomination Committee. The composition of the Nomination Committee changed during the period with the appointment of Douglas McCallum effective on 3 October 2011 and will change subsequent to period end with the appointments of Wendy Becker and Alex Mahon.

Independence: The 2010 Code requires that a majority of members of a nomination committee be independent non-executive directors.

The Nomination Committee, as at the date of this annual report, comprises seven members. The Directors expect that at the time that the various Board appointments and resignations (noted above) take effect the Nomination Committee will comprise eight members, including the Chairman, five independent Non-Executive Directors, and two Non-Executive Directors who are not deemed to be independent for the purposes of the 2010 Code. Accordingly, the Company will comply with the relevant requirements of the 2010 Code.

Non-Executive Director Appointments: The Company had previously stated its objective to re-balance the Board in favour of Non-Executive Directors who are considered independent under the 2010 Code. The Nomination Committee's work has resulted in the recruitment of three new independent Non-Executive Directors, namely, Douglas McCallum, Wendy Becker and Alex Mahon.

In each case of Non-Executive Director appointment, the process was led by the chairman of the Nomination Committee. Professional services consultants, Lygon Group and The Zygos Partnership were instructed by the chairman of the Nomination Committee in connection with separate recruitment processes. In each case, the Nomination Committee considered the skills, knowledge, background and experience required for the role of the non-executive director; and prepared a job specification for the role. A number of Directors including the chairman of the Nomination Committee, the Chairman, the Chief Executive Officer and other Directors interviewed numerous candidates for each role of non-executive director. The Nomination Committee also specified the time commitment expected of the role and confirmed with candidates that each had sufficient time available to devote to the role. Following extensive searches, the chairman of the Nomination Committee made separate recommendations to the Board to appoint as independent Non-Executive Director Douglas McCallum, Wendy Becker and Alex Mahon. As noted above, the appointments of Wendy Becker and of Alex Mahon to the Board were made following the period end.