3875000

OCADO LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE 52 WEEKS ENDED 28 NOVEMBER 2010

ocado

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Contents

Company information

Directors	Neill Abrams Andrew Bracey Jason Gissing Tim Steiner
Company secretary	Neill Abrams Robert Cooper
Company number	3875000
Registered office	Titan Court 3 Bishops Square Hatfield Business Park Hatfield Hertfordshire AL10 9NE
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants and Registered Auditors 10 Bricket Road St Albans Hertfordshire AL1 3JX

Directors' report

The Directors' present their report and the audited financial statements of Ocado Limited (the "Company") for the 52 weeks ended 28 November 2010

Principal activities
Ocado Limited is a private limited company incorporated and registered in England and Wales under the Companies Act 2006 with registered number 03875000 Its registered office is Titan Court, 3 Bishops Square, Hatfield Business Park, Hatfield, Hertfordshire AL10 9NE

Ocado Holdings Limited is the sole shareholder of the Company The ultimate parent company is Ocado Group plc and, together with the Company and the direct and indirect subsidiaries of Ocado Group plc, form the "Group" The principal activities of the Company are the retailing and distribution of grocery and consumer goods

The Company currently operates out of a dedicated Customer Fulfilment Centre ("CFC") based at a site in Hatfield, Hertfordshire, together with eight operational Spokes based in Coventry, Dartford, Manchester, Leeds, Southampton, Weybridge and White City as well as Bristol (which started operating after the end of the period)

Business review
The Companies Act requires the Company to set out in this annual report a fair review of the business of the Company during the 52 weeks ended 28 November 2010, including an analysis of the position of the Company at the end of the period, and a description of the principal risks and uncertainties facing the Company (known as the "business review") The information that fulfils the business review requirements is set out in this Directors' report

Introduction
The past year has been a year of significant progress for Ocado In the core operations we delivered a strong set of results for 2010 Our strategy of continuously improving our market leading customer offer continued to drive sales growth which has delivered through to the bottom line This was a tremendous achievement by all the members of the Ocado team

Delivering gross sales growth of 29% to £551 1 million against the backdrop of a weak UK economy is a strong result As the business grows and starts to achieve scale we are seeing the benefits of considerable operational leverage

The UK online grocery market is still at an early stage of development We believe the most effective way Ocado can increase adoption is to continue improving our customer offering As in previous years, we have worked hard to improve this on many levels, including working on range, price, availability, accuracy, ease of use as well as other service initiatives

Range
This year we expanded our range to 21,500 SKUs from 20,500 at the end of FY09, all of which are available to customers in the whole of our delivery geography To put this in context, we have now taken our range from being among the smallest offered in any UK supermarket three years ago to one of the largest ranges today As we expand the capacity of the CFC further we expect to be able to offer the largest grocery range of any major UK supermarket

Ocado own-label
A particularly important addition to our range this year has been the launch of the Ocado own-label range, which has been introduced to complement the Waitrose own-label products It offers the Ocado customer a range that matches closely in price and quality the core own-label ranges of the major UK supermarkets It has been a great achievement to build the team and the supplier relationships necessary to source and develop the Ocado own-label range While it is still early days we have seen strong take-up with 64% of all baskets containing an Ocado product in the final four week period of the year The Ocado own-label range now has over 250 products and we expect this to grow substantially in the coming years

Pricing
The launch of the Ocado range touches on another key area where we have improved this year, pricing We have continued to invest in our price positioning over the year through both range and absolute pricing Due to our increasing scale we managed to maintain margin while making these investments in price We continued our commitment to match the standard prices of all identical items of the UK's largest supermarket group As we have expanded our range, we have increased the number of Tesco Price Match items to about 7,200 We also launched "Switch and Save" which allows our customers to move to lower priced products with improved value as they check out This year we have run more promotions than ever before, increasing the value of our service to our customers The investments made in pricing over recent years have been recognised by the consumer and have led to a broadening of our customer base from a demographic perspective

Directors' report (continued)

Ocado webshop
We also made substantial improvements this year to our customer interfaces with the aim of providing the customer with the best possible experience in online grocery shopping regardless of how they want to interact with Ocado, whether on the website, mobile phone or iPad This year we also upgraded the website and iPhone app and launched apps on the iPad and Android mobile devices with mobile checkouts reaching 12% since the New Year

In November we launched the new version of the Ocado website This has been a major operation involving teams across the business from trading through to creative to IT We have had a positive reaction from our customers and its introduction has driven an increased average spend per order Beyond the improved customer interface the new website provides a new back end platform which will allow us to continue to innovate over the coming years

Awards
Ocado received numerous industry awards for its customer offer, including World Etailer of the Year 2010 at the Oracle World Retail Awards However, we are not resting on our laurels and there are many customer offer developments planned for the coming year

The customer offer improvements have led to both a significant increase in new customers using the service and an increase in spend per customer Average orders per week increased from 70,873 in FY09 to 92,916 in FY10, and exceeded 100,000 for the first time in the week commencing 10 May 2010 As expected, average order size showed a slight decrease to £114 06 for the year This is due to changing customer behaviour with customers continuing to increase their frequency of shop but with a slight decline in order size We are pleased to note that we have seen the rate of decline slow over the course of the year

CFC
Significant effort was also spent over the year on the behind the scenes projects which enable us to deliver capacity growth and customer offer improvements These occurred in all areas of the business affecting processes, software and hardware For example in the CFC one of the major projects was the addition of three new chill aisles This enabled the termination of the relatively inefficient process of trolley picking for chilled goods On the software side over 1,500 individual changes were made to our CFC systems

Increasing the scale of the business at this rate presents operational challenges The CFC capacity grew in line with expectations with a slight impact on productivity gains We reintroduced a number of processes, such as trolley picking, to help cope with increased demand This impacted CFC efficiency with units per hour ("UPH") decreasing by 2 2% to 121 UPH As our planned capital spend is invested in the CFC over the coming years, we expect productivity to rise substantially and the long-term target of 180 UPH remains in place At 99% for the year, the accuracy of our offer remained at a level we believe is significantly higher than our competitors This is slightly down on last year and we expect the capital projects planned for the CFC will improve this

Deliveries
On the delivery side of the business the progress towards the long-term target is more linear and we have seen significant improvement this year The increasing scale combined with upgrades to the routing software and vans has led to drops per van per week ("DPV/wk") increasing by 10% to 133 In the most productive week of the year we achieved 159 DPV/wk (compared to our long-term target of 175 DPV/wk)

Other events
Outside the core operations, this has been a significant year for the business Three major events occurred that are the building blocks for the long-term success of the business In May 2010, we signed a new ten year agreement with Waitrose We were delighted to sign this agreement which is our fifth and longest contract with Waitrose This ensures that we will continue our relationship, which is now in its eleventh year In July 2010, Ocado Group plc, the Company's ultimate parent company, listed on the London Stock Exchange This has many benefits for the Group and the shareholders but the primary benefit was to raise significant funds These will be used to fund the capital projects required to serve the demand we expect to see in the online grocery market In October 2010, the Company's parent reached agreement to purchase the site for a second Customer Fulfilment Centre ("CFC2") in Dordon, Warwickshire This is the most substantial capital project in the plan to more than triple the capacity of the business from 2009 to 2013

Directors' report (continued)

Financial results overview

The results for the period ended 28 November 2010 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union

Revenue
Gross sales were up 29% to £551 1 million for the year The growth was driven by a substantial increase in orders per week, offset by a slight decrease in average order size The number of active customers increased by 19% to 262,258 at the end of FY10, with average weekly new customers up by 37% to 2,948 There was minimal geographic expansion during the year Revenue grew by 28% to £515 7 million Spend on marketing vouchers remained broadly flat at 1 5% of sales, increasing by 25% to £8 1 million which was slightly less than the rate of growth in gross sales

Gross profit
Gross profit increased 32% to £161 6 million This equates to a 58 basis point increase in gross margin over the period to 29 3% This was driven by positive changes in input prices, retail price inflation, supplier support and changes in product mix as well as the effects of the increasing scale of the business Over the period the average price of items sold increased by 0 8%

Other income increased by 136% to £6 2 million This was primarily driven by a 161% rise in marketing revenue The increased space on the new website launched at the end of the year has provided us with further opportunities to generate additional marketing revenue

Operating costs
Distribution costs increased by 20% to £132 8 million This increase was slower than sales growth demonstrating the developing operating leverage of the business Distribution costs decreased as a percentage of sales from 26% to 24% The two major components of distribution costs are CFC costs and trunking and delivery costs CFC costs increased by 17% Variable CFC costs increased broadly in line with revenue due to limited productivity gains However, the operating leverage of the fixed cost base on increased volume meant that total CFC costs continued to fall as a percentage of revenue Trunking and delivery costs increased by 23% with productivity gains more than offsetting inflationary pressures Administrative expenses increased by 25% to £36 8 million The main drivers of these cost increases were additional employment costs and associated infrastructure

Operating profit/loss
Operating loss pre-exceptionals for the full year improved from £14 4 million in 2009 to £1 7 million in 2010 This was primarily due to the growth in revenue that enabled greater operating efficiencies, as highlighted above

Net finance costs
Net finance costs decreased by 37% to £7 0 million from £11 1 million This reduction in costs was primarily due to the proceeds of the IPO enabling repayment of debt shortly after the IPO in July The interest paid on borrowings reduced to £8 4 million

Taxation
The statutory rate of tax applicable was 28% A deferred tax credit of £5 0 million was recognised Ocado had approximately £260 million of unutilised carried forward tax losses as at the end of FY10

Cash flow
Net operating cash flow increased significantly this year to £23 0 million This was primarily due to a significant reduction in loss before tax and a reduction in interest paid offsetting the impact of minimal net changes in working capital this year

Balance sheet
The IPO strengthened the Company's balance sheet, moving from a net liabilities position of £32 1 million to net assets of £20 1 million £46 million of debt was repaid in the financial year and the financial flexibility of the business was further increased by the arrangement of a £100 million credit facility

Capital investment
In FY10 there was capital expenditure of £35 0 million, an increase of 52% The capital investment increased the capacity of the Hatfield CFC, expanded the van fleet and funded the internal development of new computer software

Completion of the CFC is expected to cost £80 million This will increase both the capacity to 180,000 orders per week and the range stocked The construction of CFC2 in Dordon, Warwickshire, will commence in the coming months and will continue into 2012 and beyond CFC2 is expected to cost £210 million

Directors' report (continued)

KPIs
The following table sets out a summary of selected unaudited operating information for FY10 and FY09

	FY10 (unaudited)	FY09 (unaudited)	% Change
Average order size (£) [1]	**114 06**	115 94	(1 6%)
Average orders per week	**92,916**	70,873	31 1%
CFC efficiency (units per hour) [2]	**121**	124	(2 2%)
Average deliveries per van per week (DPV/wk)	**133**	121	10 3%
Average number of operational staff (full-time equivalent)	**3,835**	3,151	21 7%
Average product wastage (% of gross sales) [3]	**0 61**	0 57	n/a
Items delivered exactly as ordered (%) [4]	**99 0**	99 4	n/a
Deliveries on time or early (%)	**94 9**	93 0	n/a

Source The information in the table above is derived from information extracted from management accounts and internal financial and operating reporting systems and is unaudited
(1) Average retail value of goods a customer receives (including VAT and delivery charge) per order
(2) Measured as units dispatched from the CFC per hour worked by CFC operational personnel
(3) Value of products purged for having passed Ocado s "use by" life guarantee and stock adjustments (net of sales to Company Shop), divided by gross sales As expected the introduction of the service counter increased the level of waste
(4) Percentage of all items delivered exactly as ordered i e the percentage of items neither missing nor substituted

Principal risks and uncertainties
The Company faces a number of risks and uncertainties that may have an adverse impact on the Company's operation, performance or future prospects

It is important for the Board to effectively manage risks and opportunities in seeking to achieve the Company's objectives The Company's policies and strategies for managing financial risk are summarised in Note 24 to the financial statements

The risks and uncertainties described below represent those which the Directors consider to be the most significant in achieving the potential success of the Company's strategy However, these risks and uncertainties do not comprise all of the risks associated with the Company and are not set out in any order of priority Additional risks and uncertainties currently not known to the Directors and/or which the Directors believe to be less material may also have a material adverse effect on the Company's business, financial condition or future prospects The relevant mitigating factors are also described below

Risk Area	Potential impact	Mitigation
Strategy		
New CFC and expansion of current CFC	A critical part of the Company's strategy is to expand its operations by further developing the CFC and building at least one additional CFC in the UK to increase its capacity to service customers The Company's ability to develop the CFC and replicate its business model in CFC2 cost-effectively and in a timely fashion will depend upon a variety of factors, notably the Company's ability to hire and train employees to operate the CFCs, management resources, the Company's ability to roll out the business systems and infrastructure, in particular, in any new CFC, reliable developers and the availability of appropriate equipment and the contractors to design and install such equipment	Last Mile Developments Limited ("Last Mile"), another company in the Group, has purchased a 999-year lease on a site in Dordon, Warwickshire for the construction of CFC2, and groundworks have commenced The Company intends to rent the CFC2 building from Last Mile, once it is complete, and to fit it out The Company has a detailed plan for the management and resourcing of the CFC2 project and the Directors have oversight of the project to ensure that it stays on schedule and within budget The Directors are confident that the business systems of the existing CFC can be replicated and enhanced in CFC2 (and in any further CFCs in the future) within the parameters of the capital expenditure budget set for the project and that it can continue to successfully complete projects to expand the existing CFC

Directors' report (continued)

Principal risks and uncertainties (continued)

Risk Area	Potential impact	Mitigation
Operational		
Single CFC	The Company is dependent on the continued operation of the CFC (and to a lesser extent, the Spokes) in order to satisfy customer orders Any disruption (such as an IT failure or a fire) to the operation of the existing CFC, in particular, or a Spoke may therefore have an adverse effect on the Company's financial position or affect the ability of the Company to economically deliver products to certain customers	The Company has disaster recovery procedures in place to minimise possible disruption to the business The Company is in the advanced stages of a plan aimed at achieving the industry recognised "Highly Protected Status" The CFC is protected by fire and security systems and has a full contingency plan to manage power outages The Company also has insurance policies in place which cover business interruption to certain maximum levels In addition, the Company's plans to build at least one additional CFC in the UK will limit, in part, the effect of any failure at the CFC Also, Spokes are able, to some extent, to serve geographies of neighbouring Spokes
Road network	The Company's delivery service is reliant on deliveries by road from suppliers to the CFC and from the CFC and the Spokes to customers This means that inclement weather, particularly snow, and sometimes traffic congestion, may reduce the number of deliveries that can be made and/or increase their cost	The Company fits winter tyres to its delivery fleet for the winter period and can optimise its delivery routing system with road speed adjustments, for example, for inclement weather The Company also subscribes to a dedicated weather information service to give it early warning and more accurate details of extreme weather
Relationships with third parties		
Relationship with Waitrose	Ocado's reputation and brand is 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 Company, 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	The Company has a successful relationship with Waitrose (which is now in its eleventh year) and in May 2010 agreed a new sourcing arrangement which will continue this relationship until at least 2017 The Company is not particularly dependent on the Waitrose supply chain as about 85% of products are delivered directly to the CFC by the relevant supplier or manufacturer
	The Sourcing Agreement also contains provisions which restrict the extent to which Ocado can source products other than from Waitrose, and the extent to which Ocado's range of Ocado own-label products may be expanded If the parties terminate the Sourcing Agreement after certain competitors of Waitrose or John Lewis gain control of the Company's ultimate parent company, Ocado Group plc, the Group is obliged to pay Waitrose £40 million	Ocado currently stocks approximately 250 Ocado own-label products, and is in the process of extending this range The Directors do not believe that the restrictions on Ocado own-label products will have a significant impact on the growth of the business or their intended expansion of the range of products stocked by Ocado

Directors' report (continued)

Principal risks and uncertainties (continued)

Risk Area	Potential impact	Mitigation
IT systems and security and intellectual property		
IT systems	The Company relies to a significant degree on the efficient and uninterrupted operation of the internet and its IT and communications systems The Company's business model relies on the complex integration of the Company's website, the highly automated CFC, goods handling equipment and the order fulfilment and delivery operations Operational problems in the Company's core systems and technologies (such as computer server or system failures, network outages, software performance problems or power failures) can result in customer orders being unable to be captured on the Company's website or processed through the CFC, or errors and delays in their delivery	The Company has an IT strategy that is aimed at ensuring plans are in place to have information systems and new technology that provide the capabilities necessary for the Company to maintain the integrity and reliability of its business The Company has disaster recovery and business continuity contingency plans to maintain the security, integrity and efficiency of its IT infrastructure The Company's IT systems are housed in a purpose-built data centre and it has a separate disaster recovery data centre which houses standby servers for all the critical systems and resilient data storage systems All critical communication links are provided via two diversely routed fibres and the internet connectivity is provided by two major internet service providers
IT security and fraud	If any compromise in the Company's IT security measures or payment processing systems were to occur, the Company's reputation may be harmed and it could lose its customers The Company relies on third parties to provide payment processing services and is exposed to typical fraud risk in relation to card payments The Company is also subject to IT regulations and compliance requirements	The Company uses encryption and authentication technology to provide the security necessary to effect the secure transmission of information from its customers, such as card payments and to reduce possible fraud The Company's customers' confidential data is protected by a range of both physical and industry standard systems controls The Company's website is regularly tested for vulnerability by both internal and external teams Relevant accounting, IT and other procedures and controls at all levels are clearly set out and some of which are audited across the business to reduce the risk of fraud Ocado is undertaking a plan to ensure compliance with the Payment Card Industry Data Security Standards
Intellectual property rights	The business and IT systems and intellectual property are not protected by patents or registered design rights which means that the Company cannot inhibit competitors from entering the same market if they develop the similar technology independently In addition, third parties may independently discover Ocado's trade secrets and proprietary information or systems	The Company is reliant on copyright and confidentiality and licence agreements with its employees, customers, suppliers, consultants and others to protect its intellectual property rights

Principal risks and uncertainties (continued)

Risk Area	Potential impact	Mitigation
Financing		
Funding for capital expenditure	The Company's £100 million debt facility may be terminated by the lenders if the Sourcing Agreement with Waitrose is terminated for any reason	The Company is able to manage whether any such termination rights will arise under the Sourcing Agreement and hence any potential impact on the debt facility (with the exception of the change of control termination right described above)
Exchange rate, interest rate and commodity fluctuations	Any depreciation of sterling in relation to the euro will increase the sterling equivalent of the price paid for the machinery used in CFC2 and to expand the capacity of the CFC (which is mostly purchased from suppliers located in countries that have adopted the euro) Fluctuations in the cost of commodities (in particular, steel) required to build CFC2 and in interest rates will impact on the costs to the business	The Company has a policy, controlled by the treasury committee (and authorised by the Directors), to hedge certain foreign currency and interest rate exposures through the use of derivative financial instruments and fixed and floating instruments There are approval parameters for hedging arrangements and a policy to monitor and review hedging arrangements including short and long-term foreign exchange rates, interest rates and counter-party risk
Regulation		
Health and safety law	A violation of health and safety laws relating to the Company's operations or construction of CFC2 or expansion of the CFC could lead to injury to employees, negative publicity and reputational damage, fines, costly compliance procedures and in very serious circumstances, a temporary shutdown of all or part of the business, or a delay in construction of CFC2	The Company's health and safety department maintains and monitors procedures, which are aligned with the relevant regulations and industry standards The Company's staff are trained in safe workplace practices The Company is in the process of developing safety procedures and reporting structures for the CFC2 construction project
Product safety	The Company is subject to a wide variety of regulatory requirements including those in relation to the manner in which it sources, stores, handles and sells products (such as meat and fish) to customers and relating to the operating of its physical facilities Any assertion or regulatory investigation that the products supplied by the Company caused illness or injury to customers or others could adversely affect the Company's reputation with existing and potential customers	There is an established legal and regulatory team in place to monitor developments and to ensure that all existing regulations are complied with The Company has a food technology department which monitors procedures to ensure quality standards and compliance with applicable food law and which liaises with the Waitrose food technology department
Government regulation	A change in regulations relating to the internet and online retail operations, consumer protection laws, the processing of customer data, the environment (such as carrier bags), or the sale, licensing or storage of products could adversely affect the manner in which the Company currently conducts its business Regulations govern the weight limits of the loads that each van can take and the number of hours that drivers can work on consecutive days, impacting the potential efficiency of the business	The Company has an established governance process in place to monitor regulatory developments and to ensure that all existing regulations are complied with The Company's delivery routing software and customised vans (which are specifically designed to improve load-carrying capacity) help maximise the operational efficiency of the Company's delivery infrastructure within the scope of the existing regulatory requirements

Directors' report (continued)

Principal risks and uncertainties (continued)

Risk Area	Potential impact	Mitigation
Staff		
Key management, staff retention and recruitment	The Company is reliant on its key management and staff for the operation of its business The Company's ability to recruit or adequately replace, retain and motivate suitably qualified and experienced staff is important for the Company's success The relationship between the Company and its workforce could change if the Company were to formally recognise a union to represent its staff	The business has had good relations with its workforce to date The Ocado Council, the Company's employee council, was established by the Company in January 2010 with a remit to discuss the terms and conditions of employment for the workforce and provide for further engagement with staff The Directors continue to keep staff remuneration and incentivisation under review to ensure it remains competitive The Directors expect to have constructive communications with any union seeking recognition by the Company
Risks relating to the industry		
Competition and the online grocery market	The trend in UK food retailing of moving from the traditional grocery market to the online grocery market may not continue	The Directors believe that the online grocery market will continue to grow rapidly in the UK, particularly as the number of people shopping online continues to increase
	The Company may be adversely affected (in loss of market share) by the entrance of new competitors in the online grocery market or if the traditional grocery retailers invest heavily in their online operations The Company also expects some increased competition from the Waitrose online business, Waitrose com when certain exclusivity provisions, which limit the extent to which the Waitrose com service may compete with the Company in the Greater London area, expire in June 2011	Ocado has a business model which is predicated on offering our customers a superior service in terms of product quality and convenience, reliability and accuracy of delivery, as well as environmental efficiency The Directors believe that as the Company's proprietary intellectual property and bespoke IT systems (including the Company's website, the stock management systems, the CFC, the customer delivery system and the van routing system) become more sophisticated, so the barriers to entry for a potential online competitor become greater The Directors do not anticipate a significant overall impact on the Company from the increased competition from Waitrose com
UK and global economic conditions	The Company's performance may depend on factors outside the control of the Group which impact on UK consumer spending, including political, financial and economic conditions	The Company regularly reviews its approach to pricing, marketing and product range for appropriateness to market conditions and to adapt to customer feedback Despite the recent economic downturn the Company's sales have continued to grow rapidly

Employee involvement

The Company's unique and informal culture means that many of its people have direct access to its senior leaders We hold weekly board lunches with employees from across the whole business to increase dialogue between staff and business leaders Ocado's employees are kept well informed of the performance of the Company and key events concerning the business through regular staff briefings done by management and through communications via the internet, email and video and audio recordings (which are particularly helpful for communicating with our large number of delivery drivers)

In order to better facilitate employee involvement and feedback in our rapidly growing business we have introduced the 'Ocado Council', which is a representative forum for dialogue between Ocado employees and leaders of the business The Ocado Council was formed in January 2010 when elections were held to select 47 council representatives from across the business The Ocado Council's achievements over its first year of existence include involvement in changes to terms and conditions of employment, pay and bonus awards, performance reviews, organisational changes and physical working environment improvements

Directors' report (continued)

Equal opportunities and disabled employees
We are committed to equal opportunities for all of our people, regardless of disability or background, from recruitment and selection, through training and development and promotion It is the policy of the Company that applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned In the event of employees becoming disabled all reasonable effort is made to ensure that their employment within the Company continues It is the policy of the Company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of an able bodied person

Charitable and political contributions
The Company has a charity committee made up of a number of employees, with the aim of encouraging support of certain charitable organisations by Ocado employees through the organisation of various fundraising initiatives During the period employees of the Company raised more than £15,000 (2009 £7,000) for a number of charities, the details of which are set out below

British Heart Foundation	£6,190
NSPCC	£4,143
MacMillan Cancer Relief	£2,493
Cancer Research UK	£990
The Harry Christie Surgery Fund	£820
Paul Dix Appeal (Princess Alexandra Hospital)	£650
Kent Air Ambulance	£361
Sick Children's Fund (Coventry)	£117

Ocado made charitable donations during the period of over £14,000 (2009 £2,000) Included in the amount for the current period is a donation of £10,000 to the 10 10 Trust, which is a charity committed to reducing carbon emissions by 10% a year

No political donations were made during the period by the Company (2009 £nil)

The Company also donates money to the Waitrose Foundation and the Prince's Charities Foundation

Board of Directors
The following persons served as Executive Directors during the period

Tim Steiner,
Neill Abrams,
Andrew Bracey, and
Jason Gissing

There were a number of changes to the Board during the period Michael Robarts was appointed to the Company's Board on 19 January 2010 as a Non-Executive Director David Grigson was appointed to the Company's Board on 3 February 2010 as a Non-Executive Director The Non-Executive Directors, Tom Clayton, Jonathan Faiman and Jeremy Frampton resigned from the Company's Board on 9 March 2010

Lord Grade of Yarmouth, Robert Gorrie, Jörn Rausing, David Young, Patrick Lewis, Michael Robarts and David Grigson resigned from the Company's Board when, along with the Executive Directors, they became Directors of the Company's ultimate parent company Ocado Group plc on 9 March 2010

Directors' interests
The Directors' did not have beneficial interests in the shares of the Company at the end of the period The Directors' beneficial interests in the shares of the ultimate parent company, Ocado Group plc, are disclosed in full in the accounts of that company Copies of those accounts can be obtained from its registered office, which is Titan Court, 3 Bishops Square, Hatfield Business Park, Hatfield, Hertfordshire AL10 9NE, or alternatively from its corporate website www ocadogroup com

Directors' insurance indemnities
The Company's ultimate parent, Ocado Group plc, maintains directors' and officers' liability insurance cover for Directors and officers as permitted under the Company's Articles and the Companies Act Such insurance policies cover the Directors of Ocado Group plc and of each of its group undertakings, including the Company In addition, the Directors are indemnified under an indemnity deed between Ocado Group plc and each Director which covers Ocado Group plc and its subsidiary undertakings, including the Company Each indemnity deed contains provisions that are permitted by the director liability provisions of the Companies Act and the Company's Articles 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

Directors' report (continued)

Research and development and future developments
The Company has a dedicated in-house software design and development team with primary focus on IT and improvements to the CFC and its material handling equipment Costs relating to the development of computer software for internal use are capitalised The Company's likely future developments are described above

Results and dividends
The Company's results for the period are set out in the income statement on page 14 The Company's profit after tax for the period amounted to £0 7 million (2009 loss of £23 2 million)

The Directors do not propose to pay a dividend for the period (2009 £nil)

Post balance sheet events
Events occurring after the balance sheet date that affect the Company are disclosed in Note 31 to the financial statements

Creditor payment policy
It is the Company's policy, in respect of the current financial year for all trade creditors, 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 does not follow any code or standard on payment practice in respect of the current financial year The Company's average creditor payment period for the 52 weeks ended 28 November 2010 was 26 days (2009 27 days), based on the ratio of Company trade creditors at the end of the year to the amounts invoiced during the year by trade creditors

Market value of properties
The Directors are of the opinion that the aggregate market value of the Company's properties as at 28 November 2010 is in line with the net book value as set out in Note 11 to the financial statements

Going concern
After making appropriate enquiries and having considered the business activities as set out on page 2 and the Company's principal risks and uncertainties as set on pages 5 to 9, the Directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future Accordingly, the financial statements have been prepared on the going concern basis

Directors' report (continued)

Statement of Directors' responsibilities
The Directors are responsible for preparing the annual 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 Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union ("IFRS-EU") 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 of the profit or loss of the Company 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 enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Company financial statements, Article 4 of the IAS Regulation They are also responsible for safeguarding the assets of the Company 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

Disclosure of information to auditors
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 Company's auditors are unaware, and that each Director has taken all 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 Company's auditors are aware of that information

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 Company'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 Director of Legal and Business Affairs

10 May 2011

Independent auditors' report to the member of Ocado Limited

We have audited the financial statements of Ocado Limited for the year ended 28 November 2010 which comprise the income statement, the statement of comprehensive income, the balance sheet, the statement of cash flows, the statement of changes in equity and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

Respective responsibilities of directors and auditors
As explained more fully in the Directors' Responsibilities Statement set out on page12 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 the financial statements in accordance with applicable law and International Standards on Auditing (UK and 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

Scope of the audit of the financial statements
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

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 28 November 2010 and of its profit and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Clive Hinds (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
St Albans

10 May 2011

Income statement

for the 52 weeks ended 28 November 2010

	Notes	52 weeks ended 28 November 2010 £'000	52 weeks ended 29 November 2009 £'000
Revenue	5	515,688	401,997
Cost of sales		(354,043)	(279,168)
Gross profit		161,645	122,829
Other income		6,245	2,641
Distribution costs		(132,809)	(110,331)
Operating profit before administrative expenses and exceptional item		35,081	15,139
Administrative expenses		(36,784)	(29,542)
Exceptional item	6	4,400	-
Operating profit/(loss)	6	2,697	(14,403)
Finance income	8	1,414	12
Finance costs	8	(8,394)	(11,118)
Loss before tax		(4,283)	(25,509)
Taxation	9	5,000	2,300
Profit/(loss) for the period attributable to the owners of the Company†		717	(23,209)

† Non-GAAP measure Earnings before interest, taxation, depreciation, amortisation, impairment and exceptional item (EBITDA)

	Notes	52 weeks ended 28 November 2010 £'000	52 weeks ended 29 November 2009 £'000
Profit/(loss) for the period attributable to the owners of the Company		717	(23,209)
Adjustments for			
Finance income	8	(1,414)	(12)
Finance costs	8	8,394	11,118
Taxation	9	(5,000)	(2,300)
Depreciation of property, plant and equipment	11	19,333	17,865
Amortisation expense	10	4,474	4,743
Impairment of property, plant and equipment	11	14	1,023
Exceptional item	6	(4,400)	-
Earnings before interest, taxation, depreciation, amortisation, impairment and exceptional item (EBITDA)		22,118	9,228

Statement of comprehensive income

for the 52 weeks ended 28 November 2010

	52 weeks ended 28 November 2010 £'000	52 weeks ended 29 November 2009 £'000
Profit/(loss) for the period attributable to the owners of the Company	717	(23,209)
Other comprehensive income		
Cash flow hedges - forward foreign exchange contracts		
- Gains arising in the period	818	-
- Gains transferred to property, plant and equipment for the period	(92)	-
Other comprehensive income for the period	726	-
Total comprehensive income/(expense) for the period attributable to the owners of the Company	1,443	(23,209)

Balance sheet

as at 28 November 2010

	Notes	28 November 2010 £'000	29 November 2009 £'000
Non-current assets			
Intangible assets	10	8,069	6,684
Property, plant and equipment	11	100,031	90,252
Deferred tax asset	9	7,300	2,300
Available-for-sale financial asset	12	395	395
		115,795	99,631
Current assets			
Inventories	13	12,480	9,213
Trade and other receivables	14	72,365	14,740
Derivative financial instruments	21	472	-
Cash and cash equivalents	15	9,070	13,017
		94,387	36,970
Total assets		210,182	136,601
Current liabilities			
Trade and other payables	16	(115,536)	(47,237)
Borrowings	17	(2,282)	(12,087)
Obligations under finance leases	17	(16,485)	(19,669)
		(134,303)	(78,993)
Net current liabilities		(39,916)	(42,023)
Non-current liabilities			
Borrowings	17	(9,774)	(42,658)
Obligations under finance leases	17	(45,573)	(45,651)
Derivative financial instruments	21	-	(1,083)
Provisions	20	(446)	(366)
		(55,793)	(89,758)
Net assets / (liabilities)		20,086	(32,150)
Equity			
Share capital	22	-	40
Share premium	22	360,279	310,836
Other reserves	22	2,056	-
Accumulated deficit		(342,249)	(343,026)
Surplus / (deficit) attributable to equity holders		20,086	(32,150)

The financial statements on pages 14 to 60 were authorised for issue by the Board of Directors and signed on its behalf by

Andrew Bracey Director

Ocado Limited
Company Registration Number 3875000 (England and Wales)

10 May 2011

Statement of cash flows

for the 52 weeks ended 28 November 2010

	Notes	52 weeks ended 28 November 2010 £'000	52 weeks ended 29 November 2009 £'000
Cash flows from operating activities			
Loss before income tax		(4,283)	(25,509)
Adjustments for			
- Depreciation of property, plant and equipment	11	19,333	17,865
- Amortisation expense	10	4,474	4,743
- Impairment of property, plant and equipment	11	14	1,023
- (Profit)/loss on disposal of property, plant and equipment	6	(63)	33
- Exceptional item	6	(4,400)	-
- Increase in provision for dilapidations expense	20	80	169
- Share-based payments charge	7	220	78
- Novation of derivative liability in respect of warrants issued by Ocado Limited	21	1,126	-
- Finance income	8	(1,414)	(12)
- Finance costs	8	8,394	11,118
Changes in working capital			
- Increase in inventories		(3,267)	(106)
- Increase in trade and other receivables		(3,368)	(2,707)
- Increase in trade and other payables		16,464	10,135
Cash generated from operations		33,310	16,830
Interest paid		(10,313)	(12,740)
Net cash flows from operating activities		22,997	4,090
Cash flows from investing activities			
Purchase of property, plant and equipment		(14,681)	(15,215)
Proceeds from sale of property, plant and equipment		87	-
Purchase of intangible assets		(5,850)	(4,389)
Loans advanced		(586)	-
Interest received		439	12
Net cash flows from investing activities		(20,591)	(19,592)
Cash flows from financing activities			
Proceeds from the issue of ordinary share capital net of transaction costs		1,705	29,129
Proceeds from borrowings		15,932	25,052
Repayment of borrowings		(10,249)	(28,374)
Proceeds from asset based financing arrangements		1,676	7,135
Repayments of obligations under finance leases		(15,417)	(10,280)
Net cash flows from financing activities		(6,353)	22,662
Net (decrease)/increase in cash and cash equivalents		(3,947)	7,160
Cash and cash equivalents at the beginning of the period		13,017	5,857
Cash and cash equivalents at the end of the period	15	9,070	13,017

Statement of changes in equity

for the 52 weeks ended 28 November 2010

	Notes	Share capital £'000	Share premium £'000	Other reserves £'000	Accumulated deficit £'000	(Deficit) / surplus attributable to equity holders £'000
Balance at 1 December 2008		38	281,649	1,139	(321,034)	(38,208)
Loss for the period		-	-	-	(23,209)	(23,209)
Total comprehensive expense for the period		-	-	-	(23,209)	(23,209)
Transactions with owners						
- Issue of ordinary shares	22	2	30,072	-	-	30,074
- Transaction costs on issue of ordinary shares	22	-	(945)	-	-	(945)
- Issue of convertible preference shares	22	-	60	-	-	60
- Transfer of equity on conversion of loan stock	22(b)	-	-	(5)	5	-
- Transfer of equity on repayment of loan stock	22(b)	-	-	(1,134)	1,134	-
- Share-based payments charge	23	-	-	-	78	78
Total transactions with owners		2	29,187	(1,139)	1,217	29,267
Balance at 29 November 2009		40	310,836	-	(343,026)	(32,150)
Profit for the period		-	-	-	717	717
Other comprehensive income	22(b)	-	-	726	-	726
Total comprehensive income for the period		-	-	726	717	1,443
Transactions with owners						
- Issue of ordinary shares	22	3	49,443	-	-	49,446
- Cancellation of ordinary and preference shares		(43)	-	-	43	-
- Capital contributions from parent		-	-	1,330		1,330
- Share-based payments charge	23	-	-	-	17	17
Total transactions with owners		(40)	49,443	1,330	60	50,793
Balance at 28 November 2010		-	360,279	2,056	(342,249)	20,086

Notes to the financial statements

1 General information

Ocado Limited (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 period represents the 52 weeks ending 28 November 2010 (prior period 52 weeks ending 29 November 2009)

2 Accounting policies

(a) Basis of preparation and development of Ocado Limited

These financial statements contain information about Ocado Limited as an individual company and do not contain consolidated financial information as the parent of a group The Company has taken advantage of the exemption under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate parent, Ocado Group plc, a company incorporated in England and Wales The consolidated financial statements of Ocado Group plc can be obtained from its registered office, which is Titan Court, 3 Bishops Square, Hatfield Business Park, Hatfield, Hertfordshire, AL10 9NE, or alternatively from its corporate website www ocadogroup com

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretation Committee (IFRIC) interpretations as endorsed by the European Union, and 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 It has been prepared under the historical cost convention, except for financial instruments that have been measured at fair value through profit and loss

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

Use of assumptions and estimates

The preparation of financial statements in conformity with IFRS requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources Actual results may differ from these estimates

These estimates and underlying assumptions are reviewed on an ongoing basis Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods Please see Note 3 for further details

Standards, amendments and interpretations adopted by the Company in 2010 or issued, but are not yet effective and have not been early adopted by the Company

The following IFRSs, IFRIC interpretations and amendments, effective for periods beginning on or after the date shown below, have been issued but are not yet effective and have not been early adopted by the Company

- Amendment to IFRS 2, "Share Based Payments" is effective from 1 January 2010
- Amendment to IFRS 3, "Business Combinations" is effective from 1 January 2011
- Amendment to IFRS 5, "Non-Current Assets Held for Sale and Discontinued Operations" is effective from 1 January 2010
- Amendment to IFRS 7, "Financial Instruments Disclosures" is effective from 1 January 2011
- IFRS 9, "Financial Instruments" new standard effective from 1 January 2013
- Amendment to IAS 1, "Presentation of Financial Statements" is effective from 1 January 2011
- Amendment to IAS 12, "Income Taxes" is effective from 1 January 2012
- Amendment to IAS 21, "The Effects of Changes in Foreign Exchange Rates" is effective from 1 July 2010
- Amendment to IAS 24, "Related party Disclosures" is effective from 1 January 2011
- Amendment to IAS 32, "Financial Instruments Presentation" is effective from 1 February 2010
- Amendment to IAS 34, "Interim Financial Reporting" is effective from 1 January 2011
- Amendment to IFRIC 13, "Customer Loyalty Programs" is effective from 1 January 2011

The adoption of these standards, interpretations and amendments is not anticipated to have a material effect on the results of the Company

Notes to the financial statements (continued)

2 Accounting policies (continued)

(b) Foreign currency translation

Functional and presentation currency
Items included in the financial statements 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 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 re-measured Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within "finance income" or 'finance costs" All other foreign exchange gains and losses are presented in the income statement within "Operating loss"

(c) Revenue

Revenue consists of income generated from online sales through the Company's customer facing website and includes charges for delivery

Online sales 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

Revenue is recognised at the point when the significant risks and rewards of products have been passed to the buyer and can be reliably measured, in general this is deemed to occur when customers take delivery of the goods Income from "Ocado Delivery Pass", the discounted pre-pay delivery scheme, is recognised in the period to which it relates on an accruals basis

(d) Cost of sales

Cost of sales represents the cost to the Company of the product sold It consists of all external costs incurred in procuring goods for resale and delivering them to the Customer Fulfilment Centre as well any adjustments to inventories

(e) Distribution costs

Distribution costs consist of all the costs incurred, excluding product costs, to the point of sale, usually the customers' 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

(f) Administrative expenses

Administrative expenses consist of all advertising and marketing expenditure, the payroll-related expenses of all marketing, IT and other Head Office functions, costs of annual software maintenance contracts, property-related costs for the Head Office, all fees for professional services and depreciation, amortisation and impairment of IT equipment and fixtures and fittings

(g) Other income

Other income consists of advertising revenue, commission income received and income from other services to suppliers

Notes to the financial statements (continued)

2 Accounting policies (continued)

(h) 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 and any costs attributable to bringing the asset to its working condition for its intended use

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 economic lives Residual values and expected useful economic lives are reviewed and adjusted, if appropriate, at the end of each reporting period

Land is not depreciated Depreciation on other fixed assets is found within distribution expenses and is calculated based on the useful economic life indicated below

Freehold buildings and leasehold properties	25 years, or the lease term if shorter
Fixtures and fittings	5 – 10 years
Plant and machinery	3 – 20 years (97% between 5 and 10 years)
Motor vehicles	2 – 5 years

Capital work-in-progress is not depreciated until it is available for use

Gains and losses on disposal are determined by comparing proceeds with the asset's carrying amount and are recognised within operating profit

(i) Intangible assets - Computer software

Computer software is carried at cost less accumulated amortisation and any recognised impairment loss Externally acquired computer software and software licences are capitalised and amortised on a straight-line basis over their useful economic lives of three to five 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 licenses is charged to administration expenses in the period in which it arises

(j) Impairment of non-financial assets

The Company does not have any assets that have an indefinite useful life and so are not subject to an annual amortisation or depreciation charge Assets that are subject to an annual amortisation or depreciation charge are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount exceeds its recoverable amount The recoverable amount is the higher of an asset's fair value less cost to sell and value in use 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 each reporting date

Given the Company's current operating structure the lowest level at which cash flows can reasonably be assessed is for the Company as a whole The Company is still investing in its future growth and so has not yet reached a stage where it delivers positive post tax earnings The Company 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

(k) Borrowing costs

Borrowing costs which are directly attributable to the acquisition or construction of qualifying assets are capitalised They are defined as the borrowing costs that would have been avoided if the expenditure on the qualifying asset had not been made All other borrowing costs are charged to finance costs, using the effective interest rate method

(l) 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 Company All other leases are classified as operating leases For property leases, the land and building elements are treated separately to determine the appropriate lease classification

Finance leases

Assets funded through finance leases are capitalised either as property, plant and equipment, or intangible assets, as appropriate, and are depreciated/ amortised over their estimated useful lives or the lease term, whichever is shorter The amount capitalised is the lower of the fair value of the asset or the present value of the minimum lease payments during the lease term at the inception of the lease The resulting lease obligations are included in liabilities net of finance charges Finance costs on finance leases are charged directly to the income statement on an effective interest rate basis

Notes to the financial statements (continued)

2 Accounting policies (continued)

(m) Leased assets (continued)

Operating leases
Assets leased under operating leases are not recorded on the balance sheet Rental payments are charged directly to the income statement on a straight line basis

Lease incentives
Lease incentives primarily include up-front cash payments or rent-free periods Lease incentives are capitalised and spread over the period of the lease term

(n) Inventories

Inventories comprise goods held for resale, fuel and other consumable goods made up principally of spares Inventories are valued at the lower of cost and net realisable value Goods held for resale and consumables are initially valued on a current cost basis and adjustments are made at the financial period end to bring this to an average cost basis 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

(o) Taxation

The tax expense for the period comprises current and deferred tax Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity In this 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, using tax rates enacted or substantively enacted by the balance sheet date Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities

Deferred taxation
Deferred tax is recognised using the balance sheet liability method, on temporary differences arising between the tax base of assets and liabilities and their carrying amount in the financial statements Deferred tax is calculated at the tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled

Deferred 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 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 set-off current taxation assets against current taxation liabilities and it is the intention to settle these on a net basis

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also recognised in equity

(p) Provisions

Provisions are recognised when the Company 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

Dilapidations
Provisions for dilapidations are recognised on a lease by lease basis and are based on the Company's best estimate of the likely committed outflow to the Company Where material, these estimated outflows are discounted to net present value

(q) Employee benefits

Pensions
The Company contributes to the personal pension plans of its staff through a defined contribution personal pension scheme which is administered by Standard Life Employer contributions to the scheme are calculated as a percentage of salary based on length of scheme membership Contributions are charged to the income statement in the period in which they arise

Notes to the financial statements (continued)

2 Accounting policies (continued)

(q) Employee benefits (continued)

Share-based payments
Employees (including Directors) of the Company receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for rights over shares ("equity-settled transactions") The cost of equity settled transactions with employees is measured by reference to the fair value at the date at which they are granted Fair value is measured by use of the Black-Scholes pricing model 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 In valuing equity-settled transactions, no account is taken of any performance conditions

The cost of equity-settled transactions is recognised, together 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 vesting period is 3 years If the options remain unexercised after a period of 10 years from the date of grant or the employee leaves the Company, the options expire (subject to a limited number of exceptions)

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which both the vesting period has expired and the number of awards, in the opinion of the Directors of the Company based on the best available estimate at that date, that will ultimately vest

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 Company 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 Payments" only in respect of bad leaver provisions in the JSOS

For details of the share options see Note 23

(r) Financial instruments

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 in the following categories

- Available-for-sale,
- Loans and receivables,
- Other financial liabilities at amortised cost, and
- Financial liabilities at fair value through the profit or loss

The classification depends on the purpose for which the financial assets and liabilities were acquired Management determines the classification of its financial instruments at initial recognition or in certain circumstances on modification

Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period Management consider that the Company's investments fall within this category as explained below

Investments
Investments are classified as either held for trading or available-for-sale There are currently no investments classified as held for trading

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 Impairments and valuations below costs are recognised in the income statement Dividends are recognised in the income statement when the right to receive payment is established

Notes to the financial statements (continued)

2 Accounting policies (continued)

(r) Financial instruments (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 These are classified as non-current assets The Company's loans and receivables comprise "Trade and other receivables and "Cash and cash equivalents" in the balance sheet

Trade and other receivables
Trade 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

Cash and cash equivalents
Cash and cash equivalents comprise cash in hand and bank overdrafts Bank overdrafts are repayable on demand and form an integral part of the Company's cash management 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 Company 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

Interest-bearing borrowings
Interest-bearing bank loans and overdrafts are initially recorded at fair value, net of attributable transaction costs Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest rate basis On the balance sheet, interest bearing borrowings have been subcategorised as borrowings and obligations under finance leases

Compound instruments
Compound financial instruments issued by the Company comprise convertible loan stock that can be converted to convertible preference shares at the option of the holder

The liability component of the compound financial instrument is recognised on the date of inception or modification at the fair value of a similar liability that does not have an equity conversion option The equity element is recognised as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component Any directly attributable transaction costs are allocated to the equity and liability components in proportion to their initial carrying amounts

Subsequently, the liability component of a compound financial instrument is measured at amortised cost using the effective interest rate method

Derivative financial instruments
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged The Company has designated all outstanding derivative financial instrument balances at 28 November 2010 as cash flow hedges of highly probable forecast transactions

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions The Company also documents its assessment, both at hedge inception and at the financial reporting period, 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

The fair values of the various derivative instruments used for hedging purposes are disclosed in Note 23 Movements on the hedging reserve in shareholders' equity are shown in the statement of comprehensive income The full fair value of a hedging derivative is classified as a current asset when the remaining maturity of the hedged item is less than 12 months

Notes to the financial statements (continued)

2 Accounting policies (continued)

(r) Financial instruments (continued)

Cash flow hedging
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss When the hedged forecast transaction results in the recognition of property, plant and equipment the gains or losses previously deferred in equity are included in the initial cost of the asset and are ultimately recognised in profit or loss through the depreciation line

Equity instruments
Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs

(s) Impairment of financial assets

Assets carried at amortised cost
The Company 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 Company uses to determine that there is objective evidence of an impairment loss includes but is 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 assets carrying amount and the present value of estimated future cash flows discounted at the financial assets original effective interest rate The assets carrying value is reduced and the loss recognised in the statement of comprehensive income

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 statement of comprehensive income

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 amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset Impairment losses recognised in the income statement on equity investments are not reversed

3 Critical accounting estimates and assumptions

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

The Company makes estimates and assumptions concerning the future The resulting accounting estimates will, by definition, seldom equal the related actual results The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are addressed below

(a) Intangible assets - capitalised software

Cost capitalisation
Amounts capitalised include the total cost of any external products or services and labour costs directly attributable to development Management judgement is involved in determining the appropriate internal costs to capitalise and the amounts involved

Useful life
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 Company will receive benefits from the software, but not exceeding the licence term For unique software products controlled and developed by the Company, the life is based on historical experience with similar products as well as anticipation of future events, which may impact their useful economic life, such as changes in technology

Notes to the financial statements (continued)

3 Critical accounting estimates and assumptions (continued)

(b) Property, plant and equipment

Property, plant and equipment represents a significant proportion of the asset base of the Company being 33% in 2010 (2009 66%) of the Company's total assets Therefore, the estimates and assumptions made to determine their carrying value and related depreciation are critical to the Company's financial position and performance

Estimation of useful life

The charge in respect of periodic depreciation is derived after determining an estimate of 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 statement of comprehensive income

The useful lives of the Company's assets are determined by management at the time the asset is acquired and reviewed at least annually for appropriateness The lives are based on historical experience with similar assets as well as anticipation of future events, which may impact their life, such as changes in technology

(c) Going concern basis including its effect on the impairment of assets

The Company has cash reserves and maintains a mixture of long-term and short-term debt finance that is designed to ensure the Company has sufficient available funds for its operations and its planned expansion The Company monitors cash flow as part of its day to day control procedures and management consider cash flow projections on a monthly basis ensuring that appropriate facilities are available to be drawn upon as necessary The Company also prepares detailed forward projections for future periods which are constantly updated and refined As a consequence, the Directors are satisfied that the Company is able to maintain sufficient resources to continue in operation for the foreseeable future Accordingly, they have adopted the going concern basis in preparing the financial statements

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

The Company 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 Company's current operating structure, the lowest level at which cash flows can reasonably be assessed is for the Company as a whole The Company 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 do 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 of future funding and the cost of such funding

(d) Leases

The Company has a number of complex high value lease arrangements The Company follows the guidance of IAS 17 "Leases" to determine the classification of leases as operating leases versus finance leases The classification of a lease as a finance lease as opposed to an operating lease will change EBITDA as the charge made by the lessor will pass through finance charges and depreciation will be charged on the capitalised asset Retained earnings may also be temporarily affected depending on the relative size of the amounts apportioned to capital repayments and depreciation IAS 17 "Leases" requires the Company to consider property leases split into their component parts (i e land and building elements) separately As only the buildings 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

(e) Recognition of deferred tax assets

The Company's tax charge on ordinary activities is the sum of the total current and deferred tax charges The calculation of the total tax charge necessarily involves a degree of estimation and judgement in respect of certain items The final outcome of some of these items may give rise to material profit and loss and/or cash flow variances

A deferred tax asset is recognised when it has become probable that future taxable profit will allow the deferred tax asset to be recovered Recognition, therefore, involves judgement regarding the prudent forecasting of future taxable profits of the business and in applying an appropriate risk adjustment factor

At the balance sheet date management has forecast that the Company would generate future taxable profits against which existing tax losses could be relieved As a result the Company has recognised a deferred tax asset of £7 3 million with respect to available tax losses

Notes to the financial statements (continued)

4 Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Directors

The principal activity of the Company is the retailing and distribution of grocery and consumer goods within the UK The results from the licensing of intellectual property for use outside of the UK to a non-UK subsidiary and the establishment in October 2010 of a captive insurance cell (see Note 28) in Malta are not currently separately reported as they are not considered material and management do not believe information about these segments would be useful to the users of the financial statements

The principal activity of the Company is managed as one segment and does not split its activities into any further regional or product subdivisions in its internal management reporting, as any such split would not provide the Company's management with any meaningful information Consequently all activities relate to this one segment

The Company is domiciled in the UK All of its revenue is from UK external customers and all non-current assets are located in the UK

Notes to the financial statements (continued)

5 Gross sales

	52 weeks ended 28 November 2010 £'000	52 weeks ended 29 November 2009 £'000
Revenue	515,688	401,997
VAT	27,285	18,788
Marketing vouchers	8,126	6,493
Gross sales	551,099	427,278

6 Operating profit/(loss)

	Notes	52 weeks ended 28 November 2010 £'000	52 weeks ended 29 November 2009 £'000
Operating profit/(loss) is stated after charging/(crediting) the following			
Cost of inventories recognised as an expense		344,796	271,613
Employment costs	7	96,639	78,181
Amortisation expense	10	4,474	4,743
Depreciation of property, plant and equipment	11	19,333	17,865
Impairment of property, plant and equipment	11	14	1,023
(Profit)/loss on disposal of property, plant and equipment		(63)	33
Exceptional item		(4,400)	-
Charges/(credit) relating to the impairment of receivables	24(b)	45	(30)
Operating lease rentals			
- land and buildings		2,347	1,815
- other leases		413	191
Net foreign exchange losses		160	72

The exceptional item represents the profit on sale of intellectual property to a group undertaking

During the period, the Company obtained the following services from its auditors

	52 weeks ended 28 November 2010 £'000	52 weeks ended 29 November 2009 £'000
Audit services		
- Statutory Company audit	185	90

Notes to the financial statements (continued)

7 Employee information

Employment costs during the financial period were as follows

	Notes	52 weeks ended 28 November 2010 £'000	52 weeks ended 29 November 2009 £'000
Staff costs during the period			
Wages and salaries		91,699	74,116
Social security costs		8,665	7,015
Pension costs - defined contribution plans		1,197	1,067
Share-based payments expense		220	78
Total employment costs		101,781	82,276
Staff costs capitalised	10	(5,142)	(4,095)
Total employment cost expense		96,639	78,181
Average monthly number of employees (including Executive Directors) by role			
Operational staff		3,835	3,151
Support staff		417	343
		4,252	3,494

The share-based payment expense relate to equity-settled share schemes only (see Note 23 for information on the Group's share option schemes)

The key management comprises the Executive and Non-Executive Directors The key management personnel compensation is as follows

	28 November 2010 £'000	29 November 2009 £'000
Salaries, fees and other short-term employee benefits	2,197	1,640
Pension costs - defined contribution plans	64	75
Equity settled share based payments granted under the joint share ownership scheme	75	-
	2,336	1,715

The table below gives the number of share options issued under the executive share ownership scheme to the Directors during the period

	28 November 2010	29 November 2009
Number of share options issued in the period	-	463
Exercise price (£)	-	135

Robert Gorrie exercised 2,750 share options during the period (2009 nil) The exercise price of these options ranged between £90 and £100, as these options were exercised before the reorganisation of the Group Total gains realised upon exercise of these options were £106,000

Notes to the financial statements (continued)

7 Employee information (continued)

The highest paid Director's compensation is as follows

	28 November 2010 £'000	29 November 2009 £'000
Salaries, fees and other short-term employee benefits	618	618
Pension costs - defined contribution plans	28	34
Equity-settled share based payments granted under the joint share ownership scheme	28	-
	674	652

8 Finance income and costs

	52 weeks ended 28 November 2010 £'000	52 weeks ended 29 November 2009 £'000
Interest on cash balances	4	5
Interest on loans to group undertakings	1,364	-
Other interest	46	7
Finance income	1,414	12
Interest on bank loans and overdrafts	(25)	(41)
Interest on finance leases	(4,356)	(5,009)
Interest on borrowings	(3,970)	(5,717)
Interest on convertible loan	-	(347)
Fair value movement in derivative liability	(43)	(4)
Finance costs	(8,394)	(11,118)
Net finance costs	(6,980)	(11,106)

Included in interest on borrowings is an amount of £197,000 relating to the accelerated amortisation of prepaid arrangement fees

Notes to the financial statements (continued)

9 Taxation

	52 weeks ended 28 November 2010 £'000	52 weeks ended 29 November 2009 £'000
Recognised in the income statement		
Current tax		
UK corporation tax on profits of the period	-	-
Adjustments in respect of prior periods	-	-
Total current tax	-	-
Deferred tax		
Recognition of tax losses	(5,000)	(2,300)
Total deferred tax	(5,000)	(2,300)
Income tax credit	(5,000)	(2,300)

The tax on the Company's loss before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to losses of the Company as follows

	52 weeks ended 28 November 2010 £'000	52 weeks ended 29 November 2009 £'000
Loss before tax	(4,283)	(25,509)
Effective tax credit at the UK tax rate of 28% (2009 28%)	(1,199)	(7,143)
Effect of		
Permanent differences	138	332
Tax losses for which no deferred tax asset recognised	(6,339)	1,793
Temporary differences on which no deferred tax recognised	2,400	2,718
Income tax credit for the period	(5,000)	(2,300)

A number of changes to the UK Corporation tax system were announced in the June 2010 Budget Statement The Finance (No 2) Act 2010, which was substantively enacted on 20 July 2010, includes legislation reducing the main rate of corporation tax from 28 per cent to 27 per cent from 1 April 2011 Further reductions to the main rate are proposed to reduce the rate by 1 per cent per annum to 24 per cent by 1 April 2014

Notes to the financial statements (continued)

9 Taxation (continued)

Movement in the deferred tax asset is as follows

	Tax losses carry-forwards £'000	Accelerated capital allowances £'000	Share-based payments £'000	Total £'000
As at 30 November 2008	-	-	-	-
Tax losses recognised through the income statement	2,300	-	-	2,300
As at 29 November 2009	2,300	-	-	2,300
Tax losses recognised through the income statement	5,000	-	-	5,000
As at 28 November 2010	7,300	-	-	7,300

The unrecognised deferred tax asset in respect of tax losses and accelerated capital allowances available at the period end is analysed below

	Tax losses carry-forwards £'000	Accelerated capital allowances £'000	Share-based payments £'000	Total £'000
As at 30 November 2008	75,117	14,609	611	90,337
Potential movement in the period unrecognised through				
- Income statement	1,793	2,725	(7)	4,511
- Equity	-	-	177	177
As at 29 November 2009	76,910	17,334	781	95,025
Effect of change in UK corporation tax rate	(2,596)	(707)	(6)	(3,309)
Potential movement in the period unrecognised through				
- Income statement	(6,339)	2,459	(59)	(3,939)
- Equity	-	-	(109)	(109)
As at 28 November 2010	67,975	19,086	607	87,668

Notes to the financial statements (continued)

10 Intangible assets – Computer software

	28 November 2010 £'000	29 November 2009 £'000
Cost		
At the beginning of the period	28,503	24,114
Additions	717	294
Internal development costs capitalised	5,142	4,095
At the end of the period	34,362	28,503
Accumulated amortisation		
At the beginning of the period	(21,819)	(17,076)
Charge for the period	(4,474)	(4,743)
At the end of the period	(26,293)	(21,819)
Net book value		
At the end of the period	8,069	6,684

The net book value of computer software held under finance leases is analysed below

	28 November 2010 £'000	29 November 2009 £'000
Cost	2,470	2,470
Accumulated amortisation	(2,404)	(2,113)
Net book value	66	357

The movement in cost includes assets of £nil (2009 £265,000) reclassified from owned assets to assets held under finance lease following asset based financing arrangements

For the 52 weeks ended 28 November 2010, internal development costs capitalised were £5,142,000 (2009 £4,095,000) and represented approximately 88% (2009 93%) of expenditure on intangible assets and 15% (2009 18%) of total capital spend including property, plant and equipment

Notes to the financial statements (continued)

11 Property, plant and equipment

	Land and buildings £'000	Fixtures, fittings, plant and machinery £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 December 2008	30,457	107,983	24,122	162,562
Additions	4,944	8,896	4,802	18,642
Disposals	(66)	(4,401)	(6,286)	(10,753)
At 29 November 2009	35,335	112,478	22,638	170,451
Additions	3,079	15,348	10,723	29,150
Disposals	(173)	(1,483)	(5,936)	(7,592)
At 28 November 2010 ‡	38,241	126,343	27,425	192,009
Accumulated depreciation and impairment				
At 1 December 2008	(8,209)	(49,170)	(14,652)	(72,031)
Charge for the period	(1,511)	(12,227)	(4,127)	(17,865)
Impairment	(92)	(931)	-	(1,023)
Disposals	66	4,401	6,253	10,720
At 29 November 2009	(9,746)	(57,927)	(12,526)	(80,199)
Charge for the period	(1,493)	(13,151)	(4,689)	(19,333)
Impairment	-	(14)	-	(14)
Disposals	149	1,483	5,936	7,568
At 28 November 2010	(11,090)	(69,609)	(11,279)	(91,978)
Net book value				
At 1 December 2008	22,248	58,813	9,470	90,531
At 29 November 2009	25,589	54,551	10,112	90,252
At 28 November 2010	27,151	56,734	16,146	100,031

‡Cost includes capitalised interest of £147,000 (2009 £147,000)

Notes to the financial statements (continued)

11 Property, plant and equipment (continued)

The net carrying value of land and buildings comprises

	28 November 2010 £'000	29 November 2009 £'000
Freehold	11,274	9,645
Short leasehold - less than 50 years	15,877	15,944
	27,151	25,589

The net book value of fixed assets held under finance leases are analysed below

	Land and buildings £'000	Fixtures, fittings, plant and machinery £'000	Motor vehicles £'000	Total £'000
At 28 November 2010				
Cost	26,509	57,685	26,455	110,649
Accumulated depreciation and impairment	(10,632)	(32,200)	(10,618)	(53,450)
Net book value	15,877	25,485	15,837	57,199
At 29 November 2009				
Cost	25,459	55,869	20,872	102,200
Accumulated depreciation and impairment	(9,515)	(26,332)	(11,247)	(47,094)
Net book value	15,944	29,537	9,625	55,106

The movement in cost includes assets of £2,119,000 (2009 £6,870,000) reclassified from owned assets to assets held under finance lease following a number of asset based financing arrangements

The impairment charge for fixtures, fittings, plant and machinery in all financial periods is in respect of superseded assets written off during the period The charge against land and buildings in 2009 was in respect of Portacabins written off as they were no longer fit for use

Included within property, plant and equipment is capital work-in-progress for land and buildings of £1,849,000 (2009 £nil) and capital work-in-progress for fixtures, fittings, plant & machinery of £4,152,000 (2009 £39,000)

Property, plant and equipment with a net book value of £10 3 million (2009 £11 0 million) has been pledged as security for the secured loans (Note 18)

Notes to the financial statements (continued)

12 Available-for-sale financial asset

	28 November 2010 £'000	29 November 2009 £'000
Unlisted equity investment	395	395

The unlisted equity investment comprises a 25% interest in Paneltex Limited whose registered office is at Paneltex House, Somerden Road, Hull, HU9 5PE This stake was acquired in June 2001 at a cost of £395,000 The Company's 25% interest in Paneltex Limited has not been treated as an associated undertaking as the Company do not have significant influence over Paneltex 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 insignificant size and arm's length nature of the relationship between the Company and Paneltex

The shares of Paneltex Limited 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 Company does not intend to dispose of this investment in the foreseeable future If the Company did intend to dispose of this investment then the anticipated exit route would be the sale of shares to the existing shareholder or another connected party of Paneltex Limited

Further details of the relationship with Paneltex Limited are included in Note 29

13 Inventories

	28 November 2010 £'000	29 November 2009 £'000
Goods for resale	11,113	8,270
Consumables	1,367	943
	12,480	9,213

No security has been granted over inventories

14 Trade and other receivables

	Notes	28 November 2010 £'000	29 November 2009 £'000
Trade receivables		7,190	5,896
Less provision for impairment of trade receivables		(234)	(189)
Net trade receivables		6,956	5,707
Other receivables		7,086	4,072
Prepayments		3,881	4,411
Amounts due from group undertakings		54,125	-
Accrued income		317	550
		72,365	14,740

No security has been granted over trade and other receivables

Notes to the financial statements (continued)

14 Trade and other receivables (continued)

Included in other receivables is £5,431,000 (2009 £3,058,000) due from suppliers in relation to supplier funded promotional activity

Amounts due from group undertakings are unsecured, bear interest at market related interest rates and are repayable on demand

A reconciliation of the movement in the provision for impairment of trade and other receivables (excl prepayments) is shown below

		28 November 2010		29 November 2009	
		Gross	Impairment	Gross	Impairment
	Notes	£'000	£'000	£'000	£'000
Not past due		66,772	-	7,807	-
Past due 0-3 months		1,680	(96)	2,395	(47)
Past due 3-6 months		192	(86)	115	(26)
Past due over 6 months		74	(52)	201	(116)
	14	68,718	(234)	10,518	(189)

The provisions account for trade receivables is used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible, at that point the amounts considered irrecoverable are written off against trade receivables directly Impairment losses are included within administrative expenses in the income statement

Trade receivables that were past due but not impaired amounted to £1,713,000 (2009 £2,522,000) 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

	28 November 2010	29 November 2009
	Gross	Gross
	£'000	£'000
Past due 0-3 months	1,585	2,348
Past due 3-6 months	106	89
Past due over 6 months	22	85
	1,713	2,522

15 Cash and cash equivalents

	28 November 2010	29 November 2009
	£'000	£'000
Cash at bank and in hand	9,211	13,157
Bank overdraft	(141)	(140)
	9,070	13,017

The bank overdraft is repayable on demand and forms an integral part of the Company's cash management so is included as a component of cash and cash equivalents

The Company renewed its bank overdraft facility of £5 million with Barclays Bank plc in January 2010 This facility was cancelled in January 2011 (see Note 31)

Notes to the financial statements (continued)

16 Trade and other payables

	28 November 2010 £'000	29 November 2009 £'000
Trade payables	34,547	33,839
Taxation and social security	3,851	3,130
Accruals	14,448	9,519
Amounts due to group undertakings	60,496	-
Deferred income	2,194	749
	115,536	47,237

Amounts due to group undertakings are unsecured, non-interest bearing and are repayable on demand

Deferred income represents the value of delivery income received under the "Ocado Delivery Pass" scheme allocated to future periods

17 Borrowings and finance leases

	Notes	28 November 2010 £'000	29 November 2009 £'000
Current liabilities			
Borrowings	18	2,282	12,087
Obligations under finance leases	19	16,485	19,669
		18,767	31,756
Non-current liabilities			
Borrowings	18	9,774	42,658
Obligations under finance leases	19	45,573	45,651
		55,347	88,309
Total borrowings and finance leases		74,114	120,065

18 Borrowings

	Total £'000	Less than one year £'000	Between one year and two years £'000	Between two years and five years £'000	Over five years £'000
As at 28 November 2010					
Secured loans	11,919	2,145	3,718	6,056	-
Unsecured loans	137	137	-	-	-
Total borrowings	12,056	2,282	3,718	6,056	-
As at 29 November 2009					
Secured loans	41,350	5,998	17,463	17,489	400
Unsecured loans	13,395	6,089	4,579	2,727	-
Total borrowings	54,745	12,087	22,042	20,216	400

Notes to the financial statements (continued)

18 Borrowings (continued)

Secured loans
The Company entered into a loan of £8 0 million in May 2007 which is secured over certain warehouse assets Interest was charged at the clearing bank's base rate plus 2 5% and was repayable in equal quarterly instalments commencing in May 2009 and ending in May 2014 In May 2009, after the first capital instalment was paid, the remaining capital instalments were deferred Repayments recommenced in August 2010 with equal instalments paid quarterly ending February 2015 The interest rate was reset to the clearing bank's base rate plus 3 0% The carrying amount of the loan at 28 November 2010 is £7 1 million (2009 £7 5 million)

The Company entered into a loan of £1 5 million in December 2006 which is secured on a freehold property Interest is charged at the clearing bank's base rate plus 1 5% The loan is repayable in fixed quarterly instalments from March 2007 with a final payment in December 2011 The carrying amount of the loan at 28 November 2010 is £1 0 million (2009 £1 1 million)

The Company entered into a loan of £1 5 million in February 2009 which is secured on a freehold property Interest is charged at LIBOR plus 2 3% It is repayable in fixed quarterly instalments from May 2009 with a final payment in February 2012 The carrying amount of the loan at 28 November 2010 is £1 2 million (2009 £1 4 million)

The Company entered into a loan of £2 9 million in December 2009 which is secured on a freehold property Interest is charged at LIBOR plus 3 5% It is repayable in fixed quarterly instalments from April 2010 with a final bullet payment in December 2012 The carrying amount of the loan at 28 November 2010 is £2 6 million (2009 £nil)

The Company entered into a loan of £20 0 million in December 2004 which was extended by a further £15 0 million in February 2007 Interest was charged at LIBOR plus 6 0%, of which 2 0% was due biannually and 4 0% was capitalised into the loan and is payable at the end of the loan term A repayment of £10 0 million was made in November 2008 and the outstanding capital balance of £27 5 million (2009 £26 4 million) was repaid in August 2010 The loan was secured over certain warehouse assets, software and intellectual property

The Company entered into a loan of £5 0 million in September 2008 secured over certain warehouse assets, software and intellectual property, initially repayable in instalments or in full on or before September 2009 The loan was extended in September 2009 until January 2010 on the same terms, and thereafter on a month by month basis The outstanding capital balance of £5 0 million (2009 £5 0 million) was repaid in May 2010 Interest was charged at LIBOR plus 2 8%

Unsecured loans
The Company entered into an agreement in October 2009 to defer the payment of its insurance premium over ten fixed monthly instalments Interest was charged at 7 2% with the final payment made in July 2010 The Company entered into a new agreement in October 2010 to defer the payment of its insurance premium of over ten fixed monthly instalments Interest is charged at 6 5% with the final payment due in September 2011 The carrying amount of the loan at 28 November 2010 is £0 1 million (2009 £1 9 million)

The Company entered into a loan of £6 8 million in April 2002 with the then landlord of the customer fulfilment centre It is repayable in fixed quarterly instalments with a final payment in March 2012 Interest was charged at 14 2% and the Company had a right to repay the loan without penalty at any time on six months' notice The outstanding capital balance of £1 6 million (2009 £2 2 million) was repaid in September 2010

The Company entered into a Murabaha facility agreement in July 2009 to raise funds of £10 0 million It was repayable in quarterly instalments from October 2009 to July 2012 totalling £11 3 million It had been estimated that this would supply the bank with an overall yield of 8 0% The outstanding capital balance of £6 9 million (2009 £9 3 million) was repaid in October 2010

Notes to the financial statements (continued)

19 Obligations under finance leases

	28 November 2010 £'000	29 November 2009 £'000
Obligations under finance leases due		
Within one year	16,485	19,669
Between one and two years	16,121	16,392
Between two and five years	21,947	20,698
After five years	7,505	8,561
Total obligations under finance leases	62,058	65,320

	Notes	28 November 2010 £'000	29 November 2009 £'000
Minimum lease payments due			
Within one year		20,087	23,705
Between one and two years		18,576	19,180
Between two and five years		24,546	23,779
After five years		9,459	10,773
		72,668	77,437
Less future finance charges		(10,610)	(12,117)
Present value of finance lease liabilities		62,058	65,320
Disclosed as			
Current	17	16,485	19,669
Non-current	17	45,573	45,651
		62,058	65,320

The existing finance lease arrangements entered into by the Company 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

Notes to the financial statements (continued)

20 Provisions

	Dilapidations £'000	Total £'000
As at 30 November 2008	197	197
Charged/(credited) to the income statement		
- Additional provision	212	212
- Unused amounts reversed	(3)	(3)
- Used during the period	(40)	(40)
As at 29 November 2009	366	366
Charged/(credited) to the income statement		
- Additional provision	203	203
- Unused amounts reversed	(1)	(1)
- Used during the period	(122)	(122)
As at 28 November 2010	446	446

The dilapidations provision is based on the future expected repair costs required to restore the CFC and the leased vans to their fair condition at the end of their respective lease terms The CFC lease expires in 2032 Leases for vans run for five years

Notes to the financial statements (continued)

21 Derivative financial instruments

	28 November 2010 £'000	29 November 2009 £'000
Derivative asset		
Derivative asset designated as at fair value through profit or loss		
- Forward foreign exchange contracts (cash flow hedges)	472	-
Derivative liability		
Derivative liability designated as at fair value through profit or loss		
- Warrant agreements	-	1,083

Forward foreign exchange contracts
The notional principal amounts of the outstanding forward foreign exchange contracts at 28 November 2010 were EUR 17 6 million (2009 EUR nil)

The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next 12 months Gains and losses recognised in the hedging reserve within other comprehensive income were £818,000 (2009 £ nil) These gains are recognised in the income statement in periods during which the hedged forecast transaction affects the income statement, which for the purchase of property, plant and equipment, is over the useful life of the asset (three to 25 years)

Warrant agreements
In 2004, the Company issued to Ranelagh Nominees (an affiliate of Lloyds Bank plc) and to Lloyds TSB Bank plc warrants to subscribe for up to 5,611,200 ordinary shares at £1 80 per share Lloyds TSB Bank plc subsequently transferred its warrants to Ranelagh Nominees Limited The warrants provide Ranelagh Nominees with the opportunity to benefit in the equity upside of the Company On IPO the warrants were fair valued at £150,000, down £933,000 from that previously recognised This decrease in fair value was due to the market price being lower on the IPO than the expected market price per the initial valuation The outstanding derivative liability of £150,000 was settled in cash

Notes to the financial statements (continued)

22 Share capital and reserves

The movements in the called up share capital and share premium accounts are set out below

	Notes	Ordinary shares number	Convertible preference shares number	Ordinary shares £'000	Convertible preference shares £'000	Share premium £'000
At 1 December 2008		1,302,690	2,474,220	13	25	281,649
Issue of ordinary shares		222,281	-	2	-	30,005
Ordinary shares issue costs		-	-	-	-	(945)
Allotted in respect of executive share ownership scheme	23(a)	786	-	-	-	67
Issue of convertible preference shares		-	529	-	-	60
At 29 November 2009		1,525,757	2,474,749	15	25	310,836
Allotted in respect of executive share ownership scheme	23(a)	6,635	-	-	-	731
Allotted in respect of joint share ownership scheme		324,767	-	3	-	48,712
Cancellation of ordinary and preference shares	22(a)	(1,857,159)	(2,474,749)	(18)	(25)	-
Issue of ordinary shares	22(a)	100	-	-	-	-
At 28 November 2010		100	-	-	-	360,279

Convertible preference shares were convertible into the same number of ordinary shares, either at the option of the holder or on the occurrence of certain trigger events, including a public listing The convertible preference shares ranked *pari passu* with ordinary shares, with the exception that on return of assets on a liquidation, reduction of capital or otherwise, the holders of the convertible preference shares shall be entitled in respect of their preference shares (in proportion to the number of such shares held by each of them) in priority to all other shareholders, to the surplus assets of the Company remaining after payment of its liabilities, the subscription price for their preference shares together with a sum equal to any arrears of dividends declared calculated down to the date of the return of assets

On 9 February 2010 Ocado Group plc acquired the entire share capital of the Company As a result of this transaction, the shareholders in the Company received shares in Ocado Group plc in direct proportion to their original shareholdings in the Company Shareholders were issued 100 shares in Ocado Group plc for every 1 share in the Company The shares in Ocado Group plc have a nominal value of 2 pence each

Notes to the financial statements (continued)

22 Share capital and reserves (continued)

The movements in reserves other than share premium are set out below

	Notes	Capital contributions reserve £'000	Fair value reserve £'000
Capital contributions			
- Novation of derivative liability in respect of warrants issued by the Company		1,126	-
- Capital contributions - Group share-based payment charge	23(a)	204	-
Fair value movement on derivative financial instrument	22(b)	-	726
At 28 November 2010		1,330	726

(a) Scheme of Arrangement and Capital Reduction

On 9 February 2010, pursuant to a scheme of arrangement, all of the Company's ordinary and convertible preference shares were cancelled Immediately thereafter, the Company issued 100 ordinary shares to Ocado Group plc for £1 and in consideration of that and of the cancellation of the Company's ordinary and convertible preference shares, Ocado Group plc issued 185,715,900 ordinary shares and 247,474,900 convertible preference shares on the basis of 100 ordinary and/or convertible preference shares for each of the Company's ordinary share and/or convertible preference share held The effect of the scheme of arrangement was to replicate the shareholders' register of the Company at the Ocado Group plc level

(b) Other reserves

Other reserves consist of the capital contributions reserve and the fair value reserve

The capital contributions reserve arose as a result of a Group equity settled share-based payment charge, in accordance with IFRS 2 'Share-based payments'

The fair value reserve comprises gains and losses on the spot movement of the Company's cash flow hedges

Notes to the financial statements (continued)

23 Share options and other equity instruments

The Group currently operates three employee share incentive schemes, namely the executive share ownership scheme (the "ESOS"), the joint share ownership scheme (the "JSOS") and the sharesave scheme

(a) Executive share ownership scheme

The Group's ESOS is an equity-settled share option scheme approved by HMRC Options may also be granted under the terms of a schedule, which is not so 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 Ocado Group plc to eligible employees of the Company 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 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 trustees may impose a performance target and any further condition determined to be appropriate on the exercise of an option Any performance target must generally 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 10 years from the date of grant or the employee leaves the Company, the options expire (subject to a limited number of exceptions)

On 9 February 2010 the ordinary shares and convertible preference shares in the Company were converted into ordinary shares and convertible preference shares in Ocado Group plc on a 1 100 basis with a par value of 2 pence per share Current period opening balance, movements during the period and options outstanding at the end of the period have been disclosed as if the conversion occurred at the beginning of the period

At each respective balance sheet date the outstanding options were as follows

	Year of Issue	28 November 2010	Exercise Price (£)	29 November 2009	Exercise Price (£)	Exercise Period
Approved	2001	593,725	0 80	13,940	80	01/04/03 - 29/11/11
	2001	17,744	0 90	268	90	30/11/04 - 29/11/11
	2002	128,181	0 90	4,104	90	31/05/05 - 29/11/12
	2003	120,053	0 90	2,127	90	31/05/06 - 29/11/13
	2004	183,426	0 90	3,147	90	31/05/07 - 29/11/14
	2005	367,789	1 00	6,599	100	31/05/08 - 29/11/15
	2005	70,170	1 15	944	115	31/05/08 - 30/05/15
	2006	138,890	1 40	1,918	140	31/05/09 - 30/05/16
	2006	115,028	1 50	1,627	150	30/11/09 - 29/11/16
	2007	587,939	1 50	6,768	150	31/05/10 - 29/11/17
	2008	225,578	1 35	2,721	135	30/11/11 - 29/11/18
	2008	445,751	1 20	5,661	120	31/05/11 - 30/05/18
	2009	240,554	1 20	3,519	120	31/05/12 - 30/05/19
	2009	1,354,121	1 35	18,100	135	02/11/12 - 29/11/19
	2010	1,151,593	1 65	-	-	30/06/13 - 29/06/20
Total approved options		5,740,542		71,443		

Notes to the financial statements (continued)

23 Share options and other equity instruments (continued)

(a) Executive share ownership scheme (continued)

	Year of Issue	28 November 2010	Exercise Price (£)	29 November 2009	Exercise Price (£)	Exercise Period
Non-approved	2001	46,563	0 80	1,094	80	21/08/03 - 29/11/11
	2001	35,856	0 90	777	90	30/11/04 - 29/11/11
	2002	56,787	0 90	1,243	90	31/05/05 - 29/11/12
	2002	175,000	1 00	3,500	100	07/02/05 - 30/05/12
	2002	350,000	1 50	3,500	150	07/02/05 - 30/05/12
	2003	100,000	0 90	2,000	90	30/11/06 - 29/11/13
	2005	754	1 00	19	100	30/11/08 - 29/11/15
	2005	808,236	1 15	12,242	115	16/05/08 - 29/11/15
	2007	50,833	1 50	508	150	31/05/10 - 30/05/17
	2009	267,500	1 20	9,369	120	31/05/12 - 30/05/19
	2009	24,074	1 35	241	135	16/11/12 - 15/11/19
Total unapproved options		1,915,603		34,493		
Total employee options		7,656,145		105,936		

Of the total employee share options above, the following options were subject to performance criteria in relation to the average contribution by basket and EBITDA

	Year of Issue	28 November 2010	Exercise Price (£)	29 November 2009	Exercise Price (£)	Exercise Period
	2005	170,670	1 15	2,913	115	31/05/08 - 30/05/15
	2009	254,000	1 20	9,550	120	31/05/12 - 30/05/19
Total options subject to performance criteria		424,670		12,463		

Details of the movement in the number of share options outstanding during each financial period are as follows

	28 November 2010		29 November 2009	
	Number of share options	Weighted average price (£)	Number of share options	Weighted average price (£)
Outstanding at the beginning of the period	10,593,611	1 15	79,922	110
Granted during the period	1,313,929	1 65	33,164	129
Forfeited during the period	(2,554,974)	1 12	(6,364)	126
Exercised during the period	(1,696,421)	1 02	(786)	85
Outstanding at the end of the period	7,656,145	1 27	105,936	115
Exercisable at the end of the period	3,662,300	1 11	57,422	100

The market value of Ocado Group plc's shares was derived based on the market value of similar companies and by taking into account transactions with shareholders during the period The Share Valuation Office of the Inland Revenue has confirmed in correspondence that in respect of options granted the exercise price per share was not less than the market value of the Company's shares at each option grant date

Notes to the financial statements (continued)

23 Share options and other equity instruments (continued)

(a) Executive share ownership scheme (continued)

In determining the fair value of the share options, the Black-Scholes Option Pricing Model was used with the following inputs

	28 November 2010	29 November 2009
Weighted average share price	£1 47	£126 60
Weighted average exercise price	£1 27	£114 78
Expected volatility	0 25	0 50
Weighted expected life	3 00	4 19
Risk-free interest rate	3 5%	5 0%
Expected dividend yield	0 0%	0 0%

Expected volatility was determined by comparing the Company to others of a similar size or which operate in similar 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 are equity settled The charge to the income statement is detailed in Note 7

The weighted average remaining contractual lives for outstanding share options under the ESOS are as follows

28 November 2010			29 November 2009		
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 80	640,288	1 0	80	15,035	2 0
0 90	642,047	3 0	90	13,666	3 8
1 00	543,543	3 8	100	10,118	4 6
1 15	878,406	4 5	115	13,186	5 5
1 20	953,805	8 4	120	18,549	9 5
1 35	1,603,773	8 9	135	21,062	9 9
1 40	138,890	5 5	140	1,918	6 5
1 50	1,103,800	5 1	150	12,403	6 2
1 65	1,151,593	9 6	-	-	-
	7,656,145			105,936	

Notes to the financial statements (continued)

23 Share options and other equity instruments (continued)

(b) Joint share ownership scheme

The set up of the Group's joint share ownership scheme (the "JSOS") was approved by a resolution of the Board of Directors on 13 January 2010 following recommendations made by the Company's Remuneration Committee that a new executive incentive scheme be established to incentivise and retain its four Executive Directors and select members of senior management of the Group (the "Participants") The scheme was approved by the shareholders by written resolution on 18 February 2010 The terms of the JSOS have been approved by the Company's Remuneration Committee who will supervise the operation of the scheme

Participants

Following consultation with the Company's lawyers, financial advisers and independent executive remuneration consultants and the Board of Directors' approval, awards were granted to the Executive Board and a select group of senior management In total they acquired interests in 32 5 million ordinary shares with an issue price of £1 50 per share (historically the maximum share price recorded for the Company's shares)

Nature of interests

Interests will take the form of a restricted interest in ordinary shares in the Company ("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 which the Interest is acquired In order to acquire an Interest, a participant must enter into a joint share ownership agreement with the trustees of an employee benefit trust under which the participant and the trustee jointly acquire the shares and agree that when the shares are sold the participant has a right to receive a proportion of the sale proceeds in so far as the value of the shares exceeds a threshold amount For the initial Interests acquired by the Participants, there are four tranches each with their own threshold or Hurdle Value as follows

Tranche	Vesting date	Hurdle value	% above issue price
1 (2011)	01/01/2011	£1 7250	115%
2 (2012)	01/01/2012	£1 9075	127%
3 (2013)	01/01/2013	£2 0829	139%
4 (2014)	01/01/2014	£2 2813	152%

A participant is required to provide up front funding to the employee benefit trust equal to 2% of the issue price on the acquisition of their interests, amounting to £0 03 per share (the "Entry Price") When an Interest vests, the trustees will transfer shares to the participant of equal value to the participant's Interest or the Shares will be sold and the trustee will account to the participant for the balance i e the difference between the sale proceeds (less expenses) and the Hurdle Value

Vesting conditions

The vesting of the Interests granted to Participants are subject to a time vesting condition with one-quarter of the Interest in the Shares vesting on the first anniversary of their acquisition, one-quarter on the second anniversary, one-quarter on the third anniversary and the final one-quarter on the fourth anniversary

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 Payments', market based vesting conditions and the share price target conditions in the JSOS have been taken in to 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 The following inputs were used in the Black-Scholes Option Pricing Model

	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 90	£2 08	£2 28
Expected volatility	0 25	0 25	0 25	0 25
Weighted Expected life	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%

Expected volatility was determined by comparing the Company to others of a similar size or which operate in a similar industry

Notes to the financial statements (continued)

23 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 the Company to non-employees These options are equity-settled, and do not have any vesting criteria

On 9 February 2010 the ordinary shares and convertible preference shares in the Company were converted into ordinary shares and convertible preference shares in Ocado Group plc on a 1 100 basis with a par value of 2 pence per share

At each respective balance sheet date the outstanding non-employee options were as follows

	Date of Issue	28 November 2010	Exercise Price (£)	29 November 2009	Exercise Price (£)	Exercise Period
Non-employee share options	Feb-02	-	-	943	53	07/02/02 - 06/02/12
	Feb-02	7,400	0 90	74	90	04/02/04 - 03/02/14
	Feb-02	886,700	0 90	8,867	90	04/02/02 - 04/02/17
	Jan-04	435,300	1 03	4,353	103	03/01/04 - 03/01/18
	Apr-04	-	-	477	103	30/04/04 - 29/05/14
		1,329,400		14,714		

Details of the movement in the number of non-employee share options during each period are as follows

	28 November 2010		29 November 2009	
	Number of share options	Weighted average price (£)	Number of share options	Weighted average price (£)
Outstanding at the beginning of the period	1,471,400	0 92	14,714	92
Granted during the period	-	-	-	-
Forfeited during the period	-	-	-	-
Exercised during the period	(142,000)	0 70	-	-
Outstanding at the end of the period	1,329,400	0 95	14,714	92
Exercisable at the end of the period	1,329,400	0 95	14,714	92

Ocado Group plc documented an option to Hawkeye Capital Partners Limited on 21 June 2010 to subscribe for 38,700 ordinary shares at a price of £1 03 per share This option was granted by the Company to Hawkeye Capital Partners Limited for investor introduction services performed by it in 2003 These options were exercised on IPO at a weighted average price of £1 03 The weighted average remaining contractual lives for the outstanding non-employee share options are as follows

28 November 2010			29 November 2009		
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 90	894,100	6 2	53 00	943	2 2
1 03	435,300	7 9	90 42	8,941	7 2
-	-	-	103 37	4,830	8 1
	1,329,400			14,714	

Notes to the financial statements (continued)

23 Share options and other equity instruments (continued)

(d) Sharesave Scheme

On 30 September 2010 the Group launched the Ocado Group Sharesave Scheme 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 Ocado Group plc at a price equal to 85% of the market value of the shares at the launch date

At 28 November 2010 employees held 819 contracts in respect of options over 2,724,513 shares A reconciliation of the Ocado Group Sharesave Scheme option movements is shown below

	52 weeks ended 28 November 2010	
	Number of share options	Weighted average price (£)
Outstanding at the beginning of the period	-	-
Granted during the period	2,728,850	1 16
Forfeited - granted in the period	(4,337)	1 16
Outstanding at the end of the period	2,724,513	1 16
Exercisable at the end of the period	-	-

In determining the fair value of the share options, the Black-Scholes Option Pricing Model was used with the following inputs

	28 November 2010
Weighted average share price	£1 37
Weighted average exercise price	£1 16
Expected volatility	0 25
Weighted expected life	3 00
Risk-free interest rate	3 5%
Expected dividend yield	0 0%

Expected volatility was determined by comparing the Company to others of a similar size or which operate in a similar industry

24 Financial instruments

(a) Fair value of financial instruments

The fair values of financial instruments are measured by using the following fair value hierarchy

- Quoted priced (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset and liability, either directly or indirectly (level 2)
- Inputs for the assets or liability that are not based on observable market data (that is unobservable inputs) (level 3)

The fair values of short-term deposits, receivables, overdrafts, payables and loans 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 derivative asset at the end of the current period relates to forward foreign exchange contracts, the fair value of which was determined with reference to the forward rate to the date of maturity for all outstanding forward foreign exchange contracts at period end This derivative asset is categorised as level 2

In the prior period the Group recognised a derivative liability in respect of warrants issued The fair value was determined using the Black-Scholes Option Pricing Model, and it was categorised as level 3

The Group's only available-for-sale financial asset consists of an unlisted equity investment of which the fair value cannot be reliably determined This investment has been categorised as level 3 There has been no movement in this investment during the period

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 5 0% (2009 6 4%), and is classified as level 2

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, and are classified as level 2

Set out below is a comparison by category of carrying amounts and fair values of all financial instruments that are included in the financial statements

		28 November 2010		29 November 2009	
		Carrying value	Fair value	Carrying value	Fair value
	Notes	£'000	£'000	£'000	£'000
Financial assets					
Cash and cash equivalents	15	9,070	9,070	13,017	13,017
Trade receivables	14	6,956	6,956	5,707	5,707
Other receivables (incl accrued income, excl prepayments)	14	7,403	7,403	4,622	4,622
Amounts due from group undertakings	14	54,125	54,125	-	-
Derivative asset	21	472	472	-	-
Available-for-sale financial asset	12	395	395	395	395
Total financial assets		78,421	78,421	23,741	23,741
Financial liabilities					
Trade payables	16	(34,547)	(34,547)	(33,839)	(33,839)
Accruals	16	(14,448)	(14,448)	(9,519)	(9,519)
Amounts due to group undertakings	16	(60,496)	(60,496)	-	-
Borrowings	18	(12,056)	(11,739)	(54,745)	(55,075)
Finance lease obligations	19	(62,058)	(62,058)	(65,320)	(65,320)
Derivative liability	21	-	-	(1,083)	(1,083)
Total financial liabilities		(183,605)	(183,288)	(164,506)	(164,836)

Notes to the financial statements (continued)

24 Financial instruments (continued)

(b) Credit risk

The Group's exposures to credit risk arise from holdings of cash and cash equivalents and trade and other receivables (excluding prepayments)

Exposure to credit risk
The carrying amount of financial assets represents the maximum credit exposure

Cash and cash equivalents
The Company's exposure to credit risk on cash and cash equivalents is managed by only opening and maintaining transactional bank accounts and term deposits with banks and financial institutions which carry a Moody's rating of Aa3/P1 for long-term and short-term deposits and limiting the amounts that can be deposited with any one such bank or financial institution

Trade and other receivables
Trade and other receivables at the period end comprise mainly monies due from suppliers, which is considered of a good credit quality The Company provides for doubtful receivables in respect of monies due from suppliers

The Company has very low retail credit risk due to transactions being principally of a high volume, low value and short maturity, and the Company's effective controls over this area The Company has provided 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 provision for the impairment of trade and other receivables are as follows

	Notes	28 November 2010 £'000	29 November 2009 £'000
At the beginning of the period		(189)	(219)
Provision for impairment of receivables		(304)	(115)
Uncollectible amounts written off		217	114
Recovery of amounts previously provided		42	31
At the end of the period	14	(234)	(189)

The provisions account for trade receivables is used to record impairment losses unless the Company 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

Notes to the financial statements (continued)

24 Financial instruments (continued)

(c) Liquidity risk

To manage the working capital needs of the business, the Company is reliant on being able to negotiate sufficient financing arrangements To achieve this, the Company maintains a mixture of short- and medium-term debt and lease finance arrangements that are designed to ensure it has sufficient available funds to finance its operations In addition, during the period the Company maintained a committed standby bank overdraft facility of £5 million (2009 £5 million) After the period end this overdraft facility was cancelled and replaced with a Group composite account facility with the requirement that the aggregate of favourable cash balances offset adverse cash balances, with a limit of £5 million adverse balance on any one account within the Group

The Company monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Company does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities For further details see Note 25

The table below analyses the Company's non-derivative 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 £'000	Contractual cash flows £'000	1 year or less £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
Non-derivative financial liabilities							
Trade payables	16	(34,547)	(34,547)	(34,547)	-	-	-
Accruals	16	(14,448)	(14,448)	(14,448)	-	-	-
Amounts due to group undertakings	16	(60,496)	(60,496)	(60,496)	-	-	-
Secured loans	18	(11,919)	(12,891)	(2,580)	(4,033)	(6,278)	-
Unsecured loans	18	(137)	(141)	(141)	-	-	-
Obligations under finance leases	19	(62,058)	(72,668)	(20,087)	(18,576)	(24,546)	(9,459)
28 November 2010		(183,605)	(195,191)	(132,299)	(22,609)	30,824)	(9,459)

Notes to the financial statements (continued)

24 Financial instruments (continued)

(c) Liquidity risk (continued)

	Notes	Carrying value £'000	Contractual cash flows £'000	1 year or less £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
Non-derivative financial liabilities							
Trade payables	16	(33,839)	(33,839)	(33,839)	-	-	-
Accruals	16	(9,519)	(9,519)	(9,519)	-	-	-
Secured loans	18	(41,350)	(45,185)	(7,517)	(19,428)	(17,837)	(403)
Unsecured loans	18	(13,395)	(14,959)	(7,047)	(5,075)	(2,837)	-
Obligations under finance leases	19	(65,320)	(77,437)	(23,705)	(19,180)	(23,779)	(10,773)
29 November 2009		(163,423)	(180,939)	(81,627)	(43,683)	(44,453)	(11,176)

At the end of the prior period the Company had a derivative liability in the form of warrants to subscribe for ordinary shares in the Company with a fair value of £1,083,000 outstanding (see Note 21) The nature of these warrants does not allow for a maturity profile to be calculated due to the uncertain timing of it being exercised These warrants were revalued and eventually settled the current period

(d) Market risk

Currency risk

The Company has foreign currency exposure in relation to its trade payables, a portion of its cash and cash equivalents and derivative financial instruments in the form of forward foreign exchange contracts

Foreign currency trade payables arise principally on purchases of plant and equipment, whilst Euro bank accounts are maintained in order to minimise the Company's exposure to fluctuations in the Euro relating to current and future purchases of plant and equipment Forward foreign exchange contracts are entered into in order to hedge future purchases of Euro

The Company's exposure to currency risk is based on the following amounts

	28 November 2010 £'000	29 November 2009 £'000
Cash and cash equivalents - Euro	5,186	-
Trade payables at period end		
Euro	1,254	41
US dollar	-	2
Derivative asset (forward foreign exchange contracts) - Euro	472	-
	6,912	43

Notes to the financial statements (continued)

24 Financial instruments (continued)

(d) Market risk (continued)

Currency risk (continued)
The table below shows the Company's sensitivity to changes in foreign exchange rates on its Euro-related financial instruments

	28 November 2010		29 November 2009	
	Increase / (decrease) in income £'000	Increase / (decrease) in equity £'000	Increase / (decrease) in income £'000	Increase / (decrease) in equity £'000
10% appreciation of the Euro	744	1,453	5	-
10% depreciation of the Euro	(719)	(1,324)	(5)	-

A strengthening of the Euro, as indicated, against sterling at 28 November 2010 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 Company considered to be reasonably possible at the end of the period The analysis assumes that all other variables remain constant

Interest rate risk
The Company is exposed to interest rate risk on its interest bearing borrowings, amounts due to and from group undertakings and floating rate cash and cash equivalents The Company'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

At the balance sheet date the interest rate profile of the Company's interest bearing financial instruments was

	Notes	28 November 2010 £'000	29 November 2009 £'000
Fixed rate instruments			
Financial assets		58,732	7,779
Financial liabilities		(62,195)	(78,715)
Variable rate instruments			
Financial assets		10,466	5,238
Financial liabilities		(17,943)	(41,350)

Sensitivity analysis
An increase of 100 basis points (1 0%) in interest rates at the balance sheet date will increase equity and profit or loss by the amounts shown below 100 basis points was deemed an appropriate rate, considering the current short-term interest rate outlook This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date This analysis assumes that all other variables remain constant and considers the effect on financial instruments with variable interest rates

	28 November 2010 £'000	29 November 2009 £'000
Equity		
Gain/(loss)	(93)	(492)
Income		
Gain/(loss)	(93)	(492)

Notes to the financial statements (continued)

24 Financial instruments (continued)

(e) Financial instruments by category

The Company has categorised its financial instruments as follows

	Notes	Available-for-sale	Loans and receivables	Financial liabilities at amortised cost	Financial liabilities at fair value through profit and loss	Total
		£'000	£'000	£'000	£'000	£'000
As at 28 November 2010						
Financial assets						
Cash and cash equivalents	15	-	9,070	-	-	9,070
Trade and other receivables (excluding prepayments)	14	-	68,484	-	-	68,484
Available-for-sale financial asset	12	395	-	-	-	395
Derivative asset	21	-	-	-	472	472
Total		395	77,554	-	472	78,421
Financial liabilities						
Trade payables	16	-	-	34,547	-	34,547
Accruals	16	-	-	14,448	-	14,448
Amounts due to group undertakings	16	-	-	60,496	-	60,496
Borrowings	18	-	-	12,056	-	12,056
Obligations under finance leases	19	-	-	62,058	-	62,058
Total		-	-	183,605	-	183,605

Notes to the financial statements (continued)

24 Financial instruments (continued)

(e) Financial instruments by category (continued)

	Notes	Available-for-sale £'000	Loans and receivables £'000	Financial liabilities at amortised cost £'000	Financial liabilities at fair value through profit and loss £'000	Total £'000
As at 29 November 2009						
Financial assets						
Cash and cash equivalents	15	-	13,017	-	-	13,017
Trade and other receivables (excluding prepayments)	14	-	10,329	-	-	10,329
Available-for-sale financial asset	12	395	-	-	-	395
Total		395	23,346	-	-	23,741
Financial liabilities						
Trade payables	16	-	-	33,839	-	33,839
Accruals	16	-	-	9,519	-	9,519
Borrowings	18	-	-	54,745	-	54,745
Obligations under finance leases	19	-	-	65,320	-	65,320
Derivative liability	21	-	-	-	1,083	1,083
Total		-	-	163,423	1,083	164,506

25 Capital management

The Board's objective is to ensure the Company's ability to continue as a going concern and sustain future development of the business, providing returns to shareholders and benefits to other stakeholders through an appropriate balance of debt and equity financing

The Board's policy is to keep borrowings within existing facilities and to negotiate and obtain additional resources required to fund the Company's working capital requirements for the foreseeable future

The Board closely manages its trading capital, which it defines as its net assets plus net debt Net debt is calculated as total debt (borrowings and finance leases as shown in the balance sheet), less and cash and cash equivalents The Company has performance based loan covenants in place over certain facilities Management monitors the performance targets on a period basis considering actual and forecast results and they maintain constant communication with all of the Company's Lenders Throughout the year the Company has complied with all covenants imposed by those Lenders The main areas of capital management revolve around the management of the components of working capital including monitoring stock turn, age of stock, age of debtors, debtor days, creditor days, balance sheet re-forecasting, period projected 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 from the Board There were no major changes in the Company's approach to capital management during the period

Notes to the financial statements (continued)

25 Capital management (continued)

At the balance sheet date the Company's performance in remaining within its borrowing facilities, including standby overdraft facilities, as measured by the headroom available was as follows

	Notes	28 November 2010 £'000	29 November 2009 £'000
Total facilities available		191,373	137,775
Facilities drawn down	17	(74,114)	(120,065)
Undrawn facilities at end of period		117,259	17,710
Cash and cash equivalents gross of drawn overdraft facility	15	9,211	13,157
Total undrawn facilities and cash available at the end of the period		126,470	30,867

26 Subsidiaries

The Company's only fully-owned subsidiary Jalapeno Partners Limited is a dormant company registered in England and Wales

27 Commitments

Capital commitments
Contracts placed for future capital expenditure not provided in the financial statements are as follows

	28 November 2010 £'000	29 November 2009 £'000
Land and buildings	21,392	-
Property, plant and equipment	13,661	5,636
Total capital expenditure committed at the end of the period	35,053	5,636

The land and buildings commitment relates to the purchase of the land on which CFC2 will be built This purchase was completed in March 2011 by one of the Ocado group companies

Operating lease commitments
The Company leases a number of offices, facilities and equipment under non-cancellable operating leases The leases have varying terms, escalation clauses and renewal rights

At 28 November 2010 the future aggregate minimum lease payments under non-cancellable operating leases are as follows

	28 November 2010 £'000	29 November 2009 £'000
Within one year	2,480	2,535
Greater than one year but less than five years	8,434	8,399
After five years	35,024	36,392
Total commitment	45,938	47,326

Notes to the financial statements (continued)

28 Contingent liabilities

The Company has contingent liabilities in respect of legal claims arising in the ordinary course of business, all of which the Company expects to be covered by its professional indemnity insurance These legal claims are not material to these financial statements

29 Related party transactions

Key management personnel
Only the Executive and Non-Executive Directors are deemed to be key management personnel It is the Directors who have responsibility for planning, directing and controlling the activities of the Company Remuneration of Directors is disclosed in the Note 7

Other related party transactions with key management personnel made during the period are as follows

	28 November 2010 £'000	29 November 2009 £'000
Purchase of goods		
- Company of a close family member of an Executive Director	42	116
Purchase of professional services		
- Non-Executive Directors	30	48
	72	164

All transactions are on an arm's length basis and no period end balances have arisen as a result of these transactions

At the end of the period key management did not owe the Company any amounts (2009 £4,000) in respect of personal expenses incurred on the Company credit card that were reimbursed in the normal course of business The prior period balances were repaid in the current period

There were no other material transactions or balances between the Company and its key management personnel or members of their close family

Investment
The Company holds a 25% interest in Paneltex Limited whose registered office is at Paneltex House, Somerden Road, Hull, HU9 5PE The Company's interest in Paneltex Limited has not been treated as an associated undertaking as it does not have significant influence over Paneltex Limited

The following transactions were carried out with Paneltex Limited

	28 November 2010 £'000	29 November 2009 £'000
Sale of goods		
- Plant and machinery	94	-
Total sale of goods	94	-
Purchase of goods		
- Plant and machinery	220	289
- Consumables	143	160
Total purchase of goods	363	449
Amounts (receivable) / payable at the end of the period	(93)	19

Notes to the financial statements (continued)

30 Analysis of net debt

(a) Net debt

	Notes	28 November 2010 £'000	29 November 2009 £'000
Current assets			
Cash and cash equivalents	15	9,070	13,017
		9,070	13,017
Current liabilities			
Amounts due to group undertakings	16	(48,372)	-
Borrowings	18	(2,282)	(12,087)
Obligations under finance leases	19	(16,485)	(19,669)
		(67,139)	(31,756)
Non current liabilities			
Borrowings	18	(9,774)	(42,658)
Obligations under finance leases	19	(45,573)	(45,651)
		(55,347)	(88,309)
Total debt		(113,416)	(107,048)

(b) Reconciliation of net cash flow to movement in net debt

	28 November 2010 £'000	29 November 2009 £'000
Net increase in cash and cash equivalents	(3,947)	7,160
Net cash outflow from debt and lease financing	8,058	6,467
Non-cash movements		
Exercise of convertible loan notes to equity	-	60
Fair value movements on convertible loan notes	-	(176)
Assets acquired under finance lease	(10,479)	(4,826)
(Increase)/decrease in net debt in the period	(6,368)	8,685
Opening net debt	(107,048)	(115,733)
Closing net debt	(113,416)	(107,048)

31 Post balance sheet events

In January 2011 the Group cancelled the bank overdraft facility of Ocado Limited and replaced it with a Group composite account facility with a gross limit of £5 million and net limit of £nil Certain of the Company's bank accounts form part of this facility

In January 2011 the Company agreed an extension of £4 2 million to a credit facility with an existing lender for vehicle financing

In February 2011 the Company completed the purchase of land in Wimbledon, London which will serve as the site for a new Spoke servicing South-West London

In March 2011 the Company completed the purchase of the land in Dordon, Warwickshire on which CFC2 will be built