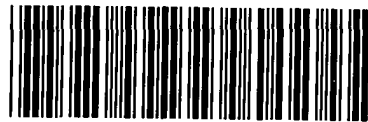


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**OCADO**

OCADO RETAIL LIMITED (FORMERLY OCADO LIMITED)  
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE 52  
WEEKS ENDED 1 DECEMBER 2013

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## **Company information**

<b>Directors</b>	Neill Abrams Jason Gissing (retired 7 May 2014) Mark Richardson Tim Steiner Duncan Tatton-Brown
<b>Company secretaries</b>	Neill Abrams Robert Cooper
<b>Company number</b>	3875000
<b>Registered office</b>	Titan Court 3 Bishops Square Hatfield Business Park Hatfield Hertfordshire AL10 9NE
<b>Independent auditors</b>	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 10 Bricket Road St Albans Hertfordshire AL1 3JX

## Strategic Report

The Directors present their strategic report of Ocado Retail Limited (formerly Ocado Limited) (the "Company") for the 52 weeks ended 1 December 2013.

### Principal activities

The principal activities of the Company are the retailing, logistics and distribution of grocery and consumer goods and the development and monetisation of intellectual property and technology for the online retailing, logistics and distribution of these goods.

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, forms the "Group".

### Overview

We have continued to make significant progress in creating a virtuous cycle between growth and developing a long-term sustainable and profitable business.

### Strategic objectives

We drive shareholder value through the application and commercialisation of our proprietary intellectual property and technology. This allows us to deliver our strategic objectives through a number of complementary strategic actions:

- Developing our proposition to customers to retain our market leading position in terms of service, range and price;
- Growing customer numbers and spend by building an ever growing base of loyal and valuable customers and encouraging them to use Ocado for more of their needs;
- Optimising operations to operate our service at the lowest possible cost;
- Enhancing the capital efficiency of future capacity and driving scale benefits; and
- Developing and leveraging our proprietary intellectual property and technology to generate significant value through monetisation.

### Developing our proposition to customers

We have continued to improve the key elements of our proposition to customers – the quality of our service, the range of products we offer, and consumers' confidence in our prices.

A high quality and reliable delivery service is critical to consumers adopting the online channel for their grocery shopping. We believe our customer delivery service remains market leading in the accuracy of orders and on time performance. Orders delivered on time or early significantly improved to 95.2% (2012: 92.7%) and order accuracy also improved to 99.0% (2012: 98.0%) during the period.

We recognise the importance of the shopping experience for existing and potential new customers with speed, ease of use and convenience particularly key elements. We continued to improve each of these aspects during the period. We simplified and shortened the registration process for first time users and enabled customers to import their favourites from existing online shopping competitors, both features reducing the barriers for a new shopper to come to Ocado. We introduced Smart Pass, our membership scheme which combines free delivery, everyday discounts on a range of brands, priority Christmas Delivery slots and exclusive discounts. The majority of orders are now made by Smart Pass holders. We remain at the forefront of the mobile shopping trend, as we continue to enhance our iOS and Android apps. Over 45% of all orders delivered are now checked out over a mobile device, with mobile apps accounting for 34% of all checkouts.

Our aim is to make the shopping experience more personal for each customer, and we have continued along this path by having personalised homepages for customers when they are logged in. We seek to provide customers with inspiration for their cooking, and in the year we introduced recipes on "edit order" reminders.

We extended our range at Ocado.com during the period by around 20% to 34,000 products, including everyday items, our own brand, more non-food and additional specialist ranges. This now significantly exceeds the offer in a standard supermarket. Recent new ranges include international selections such as a South African shop bringing a taste of the savannah to customers, and specialist ranges such as the East India Company's specialty foods.

The Ocado own-label brand continues to grow in popularity with sales up over 60% year-on-year, and the average basket now containing over four Ocado own-label products. Towards the end of the year we started to introduce more tiering into our own brand products, as part of our programme to increase the choice for our customers.

The growth of our non-food range has continued through the period, with more customers adding an increasing proportion of non-food items to their basket. This reflects the appeal to customers of having non-food products delivered in the same convenient one hour time slot as their groceries.

We soft launched the first of our destination sites, Fetch, our pet store, during the period, with the roll out to all of our customers to be completed over the next few months. Fetch is a highly curated specialist pet store with over 6,000 products, including premium pet food and medicinal products such as Hill's, James Wellbeloved, Frontline and Drontal. Again, delivery of items from Fetch can be conveniently delivered alongside customers' weekly grocery orders. We plan to launch further destination sites, with the first during 2014.

Our Low Price Promise ("LPP") basket matching initiative continues to resonate well with our customers, reflecting the competitiveness of our prices and adding transparency to our pricing strategy. By the end of the period, when checking for LPP, over 75% of our customers' baskets were already cheaper at Ocado, reflecting our competitiveness in prices and increased promotional activity.

#### **Customer and sales growth**

Our efforts in improving the proposition to customers were reflected both in growing customer numbers and in customer satisfaction surveys, with YouGov BrandIndex results showing that we led our peers towards the end of the period.

Our active customers at the end of the period stood at 385,000 (2012: 355,000). Our focus on attracting more new customers continued through the period, with the rate of new customer acquisition over 40% up on the previous year. Our order growth from frequent shoppers has been stronger, with the number of frequent customers increasing over twice as quickly as the growth in active customers. We have placed less focus on occasional customers who typically are motivated by promotional vouchers and as a result the number of infrequent customers reduced as a proportion of our active customers as we reduced voucher activity.

While total marketing expenditure on attracting new customers has increased, our corresponding reduction in retention voucher activities has seen overall marketing costs, including voucher spend, marginally down as a percentage of sales.

As we increase our range and the ease with which our customers can shop, it is more likely our customers will purchase more of their weekly requirements from us. Reflecting this trend our customers' average baskets stood at £113.53 (2012: £112.10).

#### **Optimising operations**

CFC1 continued to operate to a high level and with improved efficiency. Using the units per hour efficiency measure ("UPH"), the average productivity for the period in CFC1 was 135 UPH (2012: 121 UPH).

Order volumes have grown to an average of over 143,000 orders per week ("OPW") (2012: 123,000 OPW) with the highest number of orders delivered in a week exceeding 166,000 during the period. Following the opening of CFC2 in February, we have been executing an operational plan to migrate some orders to be fulfilled from Dordon. At the end of the period, approximately 60% of orders were fulfilled from CFC1 with the balance from CFC2, in line with our expectations.

While still in ramp up phase, CFC2 started to demonstrate its potential for improved efficiency and orders became cheaper to be picked from CFC2 than CFC1 during the second half of the year. The success of the ramp up of capacity utilisation in CFC2 gives us confidence in our ability to manage the additional throughput of products and orders from Morrisons.com.

We continue to introduce new developments to our CFCs to further improve efficiency in a cost effective manner. Our first purpose designed bagging machine, introduced into CFC1, is now an integrated part of the fulfilment operation in Hatfield, and we shall be investing in additional bagging machines during 2014.

Our delivery performance continued to improve benefiting from increased customer density, with deliveries per van per week ("DPV/week") of 160 (2012: 152 DPV).

#### **Enhancing the capital efficiency of future capacity**

CFC2, formally opened by the Prime Minister the Rt Hon David Cameron, MP in April, went live with the first customer orders picked on 24 February 2013, on time and on budget. We have been steadily ramping up this facility since then, with CFC2 reaching a peak during the period of approximately 60,000 OPW.

CFC2 opened with capacity for 120,000 OPW, and since opening we have committed to our Phase 2 development, which will take CFC2 capacity up to 180,000 to 190,000 OPW at a capital cost of £41 million over an 18 month period. Morrisons will pay for part of this capital cost under our agreement with them. During Phase 2 works, scheduled to be completed in the second half of 2014, there may be some short-term impact on UPH in 2014, while our long term efficiency target for CFC2 remains to exceed 200 UPH.

We also commenced operations at our NFDC in Welwyn Garden City, Hertfordshire, which we opened in January 2013. This will support the longer-term growth in non-food, our dedicated pet store, Fetch, and future destination sites.

As a result of our agreement with Morrisons, capacity in CFC2 will be utilised faster than had originally been planned. Consequently, during the coming year, we are likely to commit to the next CFC project to ensure that we continue to have sufficient fulfilment capacity to accommodate future growth. In addition, we are looking at options to modularise future fulfilment capacity investments, to further improve our capital efficiency and potentially reduce the lead time to build. We anticipate providing further details on these plans during 2014.

We plan to invest further in CFC1 to increase capacity and to improve resilience. We intend to add to our spoke capacity with the opening of additional spoke locations next year, sharing both costs and capacity with Morrisons.

Anticipated capital expenditure in 2014 on capacity (CFCs, spokes and vehicles) is approximately £100 million, excluding expenditure on new CFCs. This includes our planned expenditure on new technology covered below.

### **Developing and leveraging our proprietary intellectual property ("IP")**

Since inception we have utilised proprietary IP and technology as the foundation of our business. Maintaining and enhancing technology leadership in systems, processes and equipment supports our market-leading proposition to customers and drives operating excellence. This technology leadership affords us opportunities to generate significant value for Ocado through the commercialisation of our IP and operating knowledge. During the period we filed patents on a number of developments, with further patent filing in progress.

In May we announced our first strategic client for our IP and operating services with the signing of a 25 year agreement with Morrisons to launch and operate its new online grocery business, Morrisons.com. This agreement covers a number of arrangements which provide additional revenue and profit streams, improve our economic model with the sharing of capital and operational costs, deliver faster utilisation of capacity and more efficient scalability, strengthen our balance sheet and enable greater investment in Research and Development ("R&D") in the future.

On 18 July, shareholder approval, as required under the Listing Rules, was obtained for these arrangements to be concluded. Consequently, a 25 year sale and leaseback of the Dordon CFC and related Mechanical Handling Equipment ("MHE") was concluded, together with the payment of initial contract revenues resulting in the inflow of approximately £170 million.

Following significant preparation work, we were pleased that Morrisons.com was launched as planned with the first orders delivered on 10 January 2014.

Ocado's rights and obligations to source products (including Waitrose own-label products) from Waitrose remain unaffected by these arrangements.

In addition to the direct benefits to Ocado of this agreement, we consider it a strong validation of Ocado's operating model, providing a unique solution for the challenges faced by grocery retailers worldwide as the online channel continues to increase in importance. It also endorses the commercial value of our IP and operating knowledge, providing a template for future deals. We are expanding our IT team, and expect to increase the number of developers and other IT staff by around 50% by the end of 2014. The primary focus will be on re-platforming of our IT systems to enable the faster replication and roll out for international expansion, the rapid improvement of customer interfaces and other projects to drive efficiency in both our operations and central teams.

### **People, recognition and awards**

Having created over 1,000 jobs during the year, by the end of the period we employed over 6,700 people and their energy and commitment remain central to our success. Once again, our customers regularly commented on the outstanding service provided by our delivery team of over 2,500 Customer Service Team Members.

With our own growth and with the agreement to provide services to Morrisons.com, we anticipate total employee numbers to rise by around 1,000 during 2014.

We were delighted to be recognised with a number of awards during 2013, including the World's Best Online Retailer by the Grocer (The World's 50 Best Grocers), the Best Online Grocer by Which? (Members Annual Satisfaction Survey), and Supermarket of the Year in the Loved by Parents Awards.

We also won awards for our user experience including the Grocer 33 Best Mobile Shopping Experience, and for our Ocado own-label products. These included the Loved by Parents Best Grocery Product for our Ocado own-label organic vegetable boxes, and Gold Star Awards from the Great Taste Awards for a number of Ocado own-label products.

We received recognition for our continuing efforts in Corporate Social Responsibility ("CSR") from the International CSR Excellence Awards (Gold Award for Corporate Social Responsibility) and the World CSR Awards (Gold Award for Environmental Responsibility).

## Financial results overview

For the period to 1 December 2013 Ocado delivered enhanced sales growth driven by improvements to the proposition to customers and growth in the number of new customer acquisitions, and supported by increased capacity from CFC2. Operating profitability in the period was lower than the previous year because of an increase in depreciation and amortisation from the opening of CFC2. This offset gains from better operational efficiency and from the Morrisons agreement. As the utilisation of CFC2 increases we expect it to become a net contributor to profitability.

The current year results comprise 52 weeks, the prior year comprised 53 weeks. For comparison purposes a summary of the financial performance in 2012 on a 52 week basis excluding the first trading week is also provided below and all year-on-year movement data referred to below is on a 52 week basis unless stated otherwise.

	52 Weeks 2013 £m	52 Weeks 2012 £m	53 Weeks 2012 £m	52 Weeks Variance %
Gross sales	852.4	719.0	731.9	18.6%
Revenue	792.1	666.6	678.6	18.8%
Gross profit	247.5	203.4	207.3	21.7%
EBITDA (pre-exceptional)	44.3	34.1	34.7	31.4%
Operating profit before share of result from JV and exceptional items	-	5.5	5.6	
Share of result from JV	0.9	-	-	
(Loss)/profit before tax before exceptional items <sup>1</sup>	(3.5)	3.7	3.7	
Exceptional items <sup>1</sup>	(6.7)	(2.3)	(2.4)	
Loss/(profit) before tax	(10.2)	1.4	1.3	

<sup>1</sup>Exceptional items include exceptional finance costs

## Sales

Gross sales increased by 18.6% (53 week basis: 16.5%) to £852.4 million for the period. Gross sales from retail related activities were £843.0 million, an increase of 17.2%. Sales growth continued to be driven by rising demand with average orders per week of 143,000 up from 123,000 in 2012 and the average order size of £113.53 up from £112.10 in 2012.

The Morrisons agreement contributed £9.4 million of gross sales in 2013. This comprises annual fees for services, IT support and R&D and a recharge of relevant variable and fixed costs and management fees.

Revenue grew by 18.8% (53 week basis: 16.7%) to £792.1 million. There was a change in marketing focus from the second half of 2012 which involved more tailored voucher activity targeted at acquiring new customers rather than reactivating lapsed customers and greater emphasis on marketing initiatives targeted at our existing customers including Low Price Promise, our basket price matching scheme. In addition there was an increase in promotional activity and further growth in our product range. The change in marketing activity resulted in an overall decrease in voucher spend in the period, down from 1.7% of revenue in 2012 to 1.2% of revenue in 2013. This impacts on year-on-year growth in gross sales as marketing vouchers are included in the definition of gross sales but excluded from the definition of revenue.

## Gross profit

Gross profit rose by 21.7% year-on-year to £247.5 million. Gross margin was 31.2% of revenue (2012: 30.5%), ahead of 2012 predominantly due to additional gross profit contribution arising out of the arrangement with Morrisons. Average product wastage in 2013 was 1.0% of retail revenue (2012: 0.7%). Wastage costs were higher in the first six months of operations at CFC2 but in the final quarter overall product wastage was 0.7% of retail revenue in line with 2012.

Other income increased to £23.1 million, reflecting a 40.0% increase on 2012. Media income of £18.5 million was 2.4% of retail revenue (2012: 2.3%). Supplier demand for website related activities has grown slightly ahead of the rate of increase in revenue due to the benefits of scale and a wider product range. Other income also included £3.9 million of rental income arising from the leasing arrangements with Morrisons for CFC2.

## Operating profit

Operating profit before share of result from JV and exceptional items ("adjusted operating profit") for the period was £0.9 million, compared with £5.5 million in 2012. The opening of CFC2 increased depreciation costs by £9.6 million in the period.

At £201.9 million, distribution costs increased by 21.0% compared to 2012 and increased as a percentage of revenue from 25.0% in 2012 to 25.5% in the current period. Distribution costs, excluding depreciation, as a percentage of Group revenue have decreased from 22.1% in 2012 to 21.8% of revenue in the current period. Operational efficiencies were achieved through year-on-year improvements in UPH of 12.2% in CFC1, improvements in the number of deliveries per van per week due to increased number of deliveries in an unchanged geographic area and increased utilisation of the existing spoke network. CFC2 efficiency steadily improved during the year and increased utilisation of CFC2 capacity during 2014 will offset the increase in depreciation costs driven by CFC2.

Administrative expenses, including marketing and depreciation costs were £68.7 million, an increase of 44.6% year-on-year, and as a percentage of revenue was 8.7% (2012: 7.1%).

Administrative expenses	52 Weeks 2013 £m	52 Weeks 2012 £m	53 Weeks 2012 £m	52 Weeks Variance %
Central costs	44.0	31.8	32.3	38.4%
Depreciation and amortisation	14.6	9.2	9.2	58.7%
Marketing costs (excluding vouchers)	10.1	6.5	6.7	55.4%
Total administrative expenses	68.7	47.5	48.2	44.6%

Administration central costs include the implementation of new senior management long-term incentive schemes, which when combined with a higher payment for annual incentives due to the improved performance of the business, increased costs by £5.5 million in 2013. Excluding the senior management incentive costs, the administration central costs increased year-on-year by 21.2% driven by additional payroll costs, in particular in Technology and Non-Food, and as a percentage of revenue was 4.9% (2012: 4.8%). Depreciation and amortisation costs were £14.6 million, an increase of 58.7% year-on-year as a consequence of the increased investment in computer hardware and software required for the development of CFC2 and NFDC. Marketing costs excluding voucher spend were £10.1 million, an increase of 55.4% year-on-year due to the switch from retention vouchering activities, which were netted off against revenue, to advertising and acquisition marketing activities in the period.

#### Share of results from joint venture

MHE JV Co Limited ("MHE JV Co") was incorporated in the period, with Ocado owning a 50% equity interest in this entity. The Group entered into a 25 year sale and leaseback transaction of its MHE relating to CFC2, as part of the Morrisons agreement. The MHE was sold to MHE JV Co and Ocado received £58.0 million and a 50% share of MHE JV Co. The Group share of MHE JV Co profit after tax in the period amounted to £0.9 million.

#### Exceptional items

Exceptional items of £6.7 million included costs relating to the pre-opening costs for CFC2 and NFDC, legal and professional fees associated with the Morrisons agreement and the write off of capitalised arrangement fees in relation to the credit facility that was repaid during the year. There was also an exceptional credit of £0.2 million relating to a reduced impairment charge for a former spoke site in Coventry which has now been leased to a third party.

#### Net finance costs

Net finance costs (excluding exceptional items) were £4.4 million (2012 53 week basis: £1.9 million). Interest costs of £1.9 million relating to loans for the construction and fit-out of CFC2 were charged to the income statement following the opening of CFC2; these costs had been capitalised prior to opening. The sale and leaseback arrangement MHE JV Co accounted for increased interest costs of £1.9 million in 2013.

#### Loss before tax

Adjusted (excluding exceptional costs) loss before tax for the period was £(3.5) million (2012 53 week basis: profit of £3.7 million). Loss before tax for the period was £(10.2) million (2012 53 week basis: loss of £(0.4) million).

#### Taxation

Due to the availability of capital allowances and loss relief, the Company did not pay corporation tax during the year. No deferred tax credit was recognised in the period. Ocado has approximately £279.5 million of unutilised carried forward tax losses at the end of the period.

#### Capital expenditure and cash flow

During the year Ocado completed the construction of CFC2 and NFDC. On 25 July 2013 Ocado sold the company owning the land and buildings at CFC2 to Morrisons and the MHE at CFC2 to MHE JV Co, both of which are leased back over 25 years.



Reported additions to tangible and intangible assets for the period of £184.3 million included the £112.1 million leaseback of the MHE assets. Capital expenditure for the period, excluding the effects of this transaction are noted below:

	52 Weeks 2013 £m	53 Weeks 2012 £m
CFC1	5.9	15.6
CFC2	38.0	80.4
Delivery	10.8	8.9
Technology	14.1	14.4
Other	7.5	5.2
Total capital expenditure <sup>1</sup> (excluding sale & leaseback)	76.3	124.5

<sup>1</sup>Capital expenditure includes tangible and intangible assets

Investment in CFC1 capital expenditure was £5.9 million on both capacity and resiliency projects, a lower rate versus 2012 due to completion of a number of large projects.

In the period we opened CFC2 and incurred a further £38.0 million capital expenditure to bring CFC2 into operation. This site was opened on time, on budget and with an initial capacity of approximately 120,000 OPW and work continues to increase the capacity to over 180,000 OPW.

Investment in new vehicles, which are typically on five year financing contracts, was £9.0 million (2012: £7.4 million) driven by business growth. The delivery capital expenditure also includes investments in new hand held terminals to support the growth in van numbers and spoke site costs for a new spoke to be opened in early 2014.

Ocado continues to invest in technology by developing its own software for activities which enable us to retain the intellectual property rights. In the period £10.4 million (2012: £11.5 million) of internal development costs were capitalised as intangible assets with a further £3.7 million (2012: £2.9 million) spent on computer hardware.

At 1 December 2013, capital commitments contracted, but not provided for by the Group, amounted to £28.8 million (2 December 2012: £43.4 million). We expect capital expenditure in 2014 to be approximately £100 million, before any investment in further CFCs, as we continue our investment to support our long term strategic goals.

The overall improvement in the net operating cash flow was primarily driven by an increase in EBITDA and an improvement in working capital of £9.6 million and £3.4 million respectively. The working capital improvement reflected an increase in trade payables largely due to un-amortised proceeds from the upfront £29.7 million from Morrisons fees.

#### Balance sheet

The Group had cash and cash equivalents of £8.6 million at the period end (2012: £16.0 million).

Initial proceeds from the Morrisons agreement including cash deposits disposed of were £169.8 million. As a result of this agreement, the drawn element of the primary debt facility of £85.3 million was repaid in July 2013. At the same time a finance lease was created with MHE JV Co, the company jointly owned by Ocado and Morrisons, to lease back the MHE at CFC2.

### Key performance indicators

The following table sets out a summary of selected unaudited operating information for 2013 and 2012:

	52 Weeks 2013 (unaudited)	52 Weeks 2012 (unaudited)	52 Weeks Variance % <sup>5</sup>
Average orders per week	143,000	123,000	15.8%
Average order size (£) <sup>1</sup>	113.5	112.1	1.3%
CFC1 efficiency (units per hour) <sup>2</sup>	135	121	12.2%
Average deliveries per van per week (DPV/week)	160	152	5.8%
Average product wastage (% of revenue) <sup>3</sup>	1.0	0.7	0.3%
Items delivered exactly as ordered (%) <sup>4</sup>	99.0	98.0	1.0%
Deliveries on time or early (%)	95.2	92.7	2.4%

Source: the information in the table above is derived from information extracted from internal financial and operating reporting systems and is unaudited.

<sup>1</sup> Average retail value of goods a customer receives (including VAT and delivery charge) per order.

<sup>2</sup> Measured as units dispatched from the CFC per variable hour worked by CFC1 operational personnel.

<sup>3</sup> Net value of products purged for having passed Ocado's "use by" life guarantee post any recovery income, divided by revenue.

<sup>4</sup> Percentage of all items delivered exactly as ordered, i.e. the percentage of items neither missing nor substituted.

<sup>5</sup> Percentage change based on unrounded numbers.

## 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 Directors have overall responsibility for risk management and internal control systems. The Company's policies and strategies for managing financial risk are summarised in Note 4.4 to the financial statements.

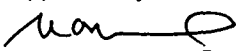
The risks and uncertainties described below represent those which the Directors consider to be the most significant in achieving the potential success of the Company's strategy. However, these risks and uncertainties do not comprise all of the risks associated with the Company and are not set out in 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.

Strategy	Risk factors	Mitigating factors
Develop the proposition to customers	<ul style="list-style-type: none"> <li>Failure to maintain competitive pricing position</li> </ul>	<ul style="list-style-type: none"> <li>Implementation of LPP;</li> <li>Increasing number of promotional offers;</li> <li>Creation of a choice of tiered price points within each category.</li> </ul>
	<ul style="list-style-type: none"> <li>A risk of decline in high service levels</li> </ul>	<ul style="list-style-type: none"> <li>Weekly monitoring of the key indicators and the underlying drivers against published targets;</li> <li>Continuing investment in new equipment and technology to improve service levels.</li> </ul>
	<ul style="list-style-type: none"> <li>Failure to maintain a compelling range</li> </ul>	<ul style="list-style-type: none"> <li>Growth of the Ocado own label range along side continued provision of the Waitrose range;</li> <li>Growth of branded ranges and expansion of supplier base.</li> </ul>
Growing the number of customers	<ul style="list-style-type: none"> <li>Failure to achieve sales growth and utilisation of existing capacity</li> </ul>	<ul style="list-style-type: none"> <li>Continued investment and optimisation of the marketing channels to acquire to new customers;</li> <li>Investment in the proposition to improve the offer to customers;</li> <li>Investment in new customer retention tools.</li> </ul>
Optimise operations	<ul style="list-style-type: none"> <li>A risk that future efficiency improvements may be limited</li> </ul>	<ul style="list-style-type: none"> <li>Regular monitoring of a wide range of KPIs to identify any underperforming areas;</li> <li>Expanding the technology team to enable faster implementation of improvements;</li> <li>Increasing rate of R&amp;D spend to enable further improvements.</li> </ul>
Enhance efficiency of future capacity and drive scale benefits	<ul style="list-style-type: none"> <li>A risk of delays in the implementation of new capacity for both Ocado and Morrisons</li> </ul>	<ul style="list-style-type: none"> <li>Resources have been dedicated to the modularisation of technology and logistics systems, to enable faster replication;</li> <li>Detailed plans for new capacity are in progress.</li> </ul>
Commercialise value of IP	<ul style="list-style-type: none"> <li>Failure to develop a competitive model for further commercialisation</li> </ul>	<ul style="list-style-type: none"> <li>Engagement with a wide number of international grocers to understand market needs;</li> <li>Experienced teams in place who understand the current solutions and are aware of global alternatives used in other industries;</li> <li>Commenced formal "freedom to operate" studies to identify existing patents that may affect the Group's ability to operate its current model in new markets.</li> </ul>
	<ul style="list-style-type: none"> <li>Failure to protect current technology and process</li> </ul>	<ul style="list-style-type: none"> <li>Processes set up to identify patentable inventions and patent writing programme commenced in July 2013.</li> </ul>
Assurance	<ul style="list-style-type: none"> <li>A risk of a food or product safety incident</li> </ul>	<ul style="list-style-type: none"> <li>Experienced legal, food technology and health and safety professionals monitor operations to ensure regulations are</li> </ul>

Strategy	Risk factors	Mitigating factors
		<ul style="list-style-type: none"> <li>complied with;</li> <li>Supplier approval process;</li> <li>Centralised health and safety policies with appropriate divisional procedures</li> </ul>
	<ul style="list-style-type: none"> <li>A risk of changes in regulations impacting our business operations</li> </ul>	<ul style="list-style-type: none"> <li>Regular monitoring of regulatory developments to ensure that changes are identified;</li> <li>Monitoring operational performance to minimise the Group's environmental impact.</li> </ul>
	<ul style="list-style-type: none"> <li>Failure of technology or data loss</li> </ul>	<ul style="list-style-type: none"> <li>IT systems are structured to operate reliably and securely;</li> <li>Denial of Service protection service is in place;</li> <li>The security of our IT systems is regularly tested by third parties;</li> <li>No customer payment card data is held on Ocado's databases;</li> <li>Access to customer personal data is restricted to those who need this information as part of their job.</li> </ul>
	<ul style="list-style-type: none"> <li>Business interruption</li> </ul>	<ul style="list-style-type: none"> <li>Dedicated engineering teams on site with daily maintenance programs to support the continued operation of equipment;</li> <li>Insurers advise on engineering and risk management in the design and operation of the CFCs;</li> <li>High level of protection for CFCs and equipment.</li> </ul>
	<ul style="list-style-type: none"> <li>A risk of unintentional infringement of competition legislation</li> </ul>	<ul style="list-style-type: none"> <li>All members of the buying and business planning teams are trained on their responsibilities under competition law;</li> <li>Codes of conduct, information barriers and access restriction policies have been implemented as part of the Morrisons agreement.</li> </ul>

The Group's circumstances and priorities have changed significantly in 2013 and in particular following the successful opening of CFC2 and commercial agreement with Morrisons. As such the principal risks and uncertainties have also changed and some identified in 2012 have been removed from the report.

Approved by the Board and signed on its behalf by:



**Neill Abrams**

Legal and Business Affairs Director and Company Secretary

30 June 2014

## Director's report

The Directors present their report and the audited financial statements of Ocado Retail Limited (the "Company") for the 52 weeks ended 1 December 2013.

### Political contributions

No political donations were made by the Company to any political party, organisation or candidate during the period (2012: nil).

### Board of Directors

The following Directors served during the period:

Tim Steiner;  
Neill Abrams;  
Jason Gissing;  
Mark Richardson; and  
Duncan Tatton-Brown.

Jason Gissing retired from the Board on 7 May 2014.

### 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 annual report and financial statements of that company. Copies of those financial statements 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](http://www.ocadogroup.com).

### Directors' insurance indemnities

The Company's ultimate parent, Ocado Group plc, maintains directors' and officers' liability insurance cover for its Directors and officers as permitted under the Company's Articles and the Companies Act 2006. Such insurance policies cover the Directors of Ocado Group plc and of each of its group undertakings, including the Company. These insurance policies were renewed during the period and remain in force. The Company also indemnifies the Directors under an indemnity deed with each Director which contains provisions that are permitted by the director liability provisions of the Companies Act 2006 and the Company's Articles. An indemnity deed is usually entered into by a Director at the time of their appointment to the Board. Qualifying third party indemnity provisions (as defined by section 234 of the Companies Act 2006) 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.

### Research and development and future developments

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

The Company's likely future developments including its strategy are described in the Strategic Report above.

### Risk Management

The Company's risk management policies for managing financial risk to the extent material to assessing the financial performance or position of the Company are summarised in Note 4.4.2 to the financial statements and the principal risks and uncertainties section of the Strategic Report.

### Equal opportunities and disabled employees

We are committed to carrying out our business in a non-discriminatory way. We are committed to equal opportunities for all of our people, regardless of disability or background. We value diversity and through our equal opportunities policy we are dedicated to creating an environment that is free from discrimination, harassment and victimisation, where everyone is treated equally regardless of age, colour, disability, race, gender, sexual orientation, marital status, political views or religious belief. It is our policy 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 Group continues. It is our policy 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.

### People

We deliver superior customer service and business success through our people, which is why it is important for us to appropriately engage, listen to, reward and develop our employees. We continue to focus on the six pillars of our people strategy.

#### 1. We will develop inspirational people managers who lead and motivate successful teams

We have created and rolled-out a management development programme, which gives our employees the opportunity to progress their careers. We run a graduate programme which plays an important part in developing talented people for our future. We have also embedded appraisal processes and succession plans into the business.

#### 2. We will enable our people to drive Ocado to the next level through the right skills and infrastructure

Our in-house training team delivered over 1,200 training sessions during the last year, varying from one to one coaching to group workshops, in subjects ranging from core operational skills to regulatory and compliance education. The team trains across the

full spectrum of employees, delivering manual skills training as well as providing management development courses. These training sessions attracted over 8,000 attendees during the period with many people attending several courses. We keep our organisational structures under review to ensure that they remain efficient and effective and provide employees the support necessary to help us deliver the Company's objectives.

### **3. We will continuously improve our business through listening to and engaging with our people**

Our employees are given a voice through the Ocado Council, our employee representative body, which helps facilitate employee participation and consultation in our rapidly growing business. Representatives of the Union of Shop, Distributive and Allied Workers ("USDAW") participate in the Ocado Council, giving employees a choice of independent or union-sponsored representatives to voice their views on pay, holiday entitlements and the number of working hours, along with other topics of general interest.

We also conduct an annual employee survey across the whole business to measure levels of employee engagement and identify the areas where we can make improvements as an employer.

We engage with our employees in a number of ways to encourage the alignment of employee and business goals. Our employees are kept well informed of the performance of the Group and our business direction through briefing meetings and communications via the intranet, email, our internal magazine and video.

### **4. We will recognise and reward achievement and desired behaviours**

Our employee benefits package includes a pension, life assurance, healthcare, an employee assistance programme, a staff discount on grocery and non-food orders, free delivery on certain days and a discounted company shop. We believe all of our employees should have the opportunity to own a part of the business and have granted share options to all employees as part of their benefits package.

Ocado's staging date for Pensions Auto-enrolment was 1 May 2013. Ocado is keen to ensure that pension choice is a key feature for employees going forward and Ocado now offers a choice of two pensions and two contribution levels to all of its employees: a Group Personal Pension and a Money Purchase scheme. In the three months after our staging date, Ocado's pension participation went from 16% to 82%, with half of the pension participants choosing to contribute more than the legislative minimum. Ocado continues to support its employees through continuous education about pensions. We are proud to have been shortlisted for best auto-enrolment strategy by Workplace Savings and Benefits publication.

We have again offered our employees the opportunity to sign up to a three year Sharesave scheme. The original 2010 Sharesave scheme has now ended with employees able to exercise their options.

### **5. We will develop an Employer Brand which reflects the real Ocado to attract and retain the best talent**

Our employer brand is central to our ability to attract the best talent at the rate we need to match our growth. We advertise and recruit in-house and externally, and work with local councils and agencies to attract local candidates. Furthermore we cooperate with Welfare to Work agencies, where appropriate, in order to assist unemployed people back into the world of work.

### **6. We will live our values in everything we do**

The four Ocado values underpin everything we do. To ensure they remain at the core of the business we have values-led monthly recognition schemes for our operational employees and have embedded our values into our appraisal processes.

## **Results and dividends**

The Company's results for the period are set out in the income statement on page 16.

The Directors do not propose to pay a dividend for the period (2012: £nil).

## **Post balance sheet events**

Events occurring after the balance sheet date that affect the Company are disclosed in Note 5.5 to the financial statements.

## **Borrowings and covenants**

The most material of the Group's borrowing facilities was its £100 million credit facility with Barclays Bank plc, HSBC Bank plc and Lloyds TSB Bank plc. During the period, £85.3 million, being the full amount outstanding under the £100 million credit facility of the Group, was repaid and the facility was cancelled.

## **Statement of Directors' responsibilities**

The Directors are responsible for preparing the Strategic report, Directors' 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. 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 result 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. 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.

#### **Disclosure of information to auditors**

In accordance with the Companies Act 2006, 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 of the steps that they ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the 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 and signed in its behalf by



**Neill Abrams**

Company Secretary and Legal and Business Affairs Director

30 June 2014

# ***Independent auditors' report to the members of Ocado Limited***

## **Report on the financial statements**

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### **Our opinion**

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the company's affairs as at 1 December 2013 and of its loss and cash flows for the period then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

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### **What we have audited**

The financial statements, which are prepared by Ocado Limited, comprise:

- the balance sheet as at 1 December 2013;
- the income statement and statement of comprehensive income for the period then ended;
- the statement of cash flows for the period then ended;
- the statement of changes in equity for the period then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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### **What an audit of financial statements involves**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements (the "Annual Report") to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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## **Opinion on other matter prescribed by the Companies Act 2006**

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In our opinion the information given in the Strategic Report and the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.



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## **Other matters on which we are required to report by exception**

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### **Adequacy of accounting records and information and explanations received**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, 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.

We have no exceptions to report arising from this responsibility.

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### **Directors' remuneration**

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

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## **Responsibilities for the financial statements and the audit**

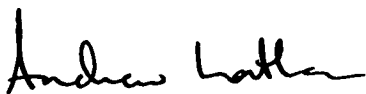
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### **Our responsibilities and those of the directors**

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



Andrew Latham (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
St Albans  
30 June 2014

**Income statement  
for the 52 weeks ended 1 December 2013**

	Notes	52 weeks ended 1 December 2013 £m	53 weeks ended 2 December 2012 £m
<b>Revenue</b>	2.1.2	792.1	678.6
Cost of sales		(544.6)	(471.3)
<b>Gross profit</b>		247.5	207.3
Other income		23.1	16.7
Distribution costs		(201.9)	(170.2)
Administrative expenses		(68.7)	(48.2)
<b>Operating profit before share of result in joint venture and exceptional items</b>		-	5.6
Share of result from joint venture		0.9	-
Exceptional items	2.1.5	(4.5)	(2.4)
<b>Operating (loss)/profit</b>	2.1.3	(3.6)	3.2
Finance income	4.2.1	2.1	2.1
Finance costs	4.2.1	(6.5)	(4.0)
Exceptional finance costs	2.1.5	(2.2)	-
<b>Profit/(loss) before tax</b>		(10.2)	1.3
Taxation	2.2.1	-	(1.7)
<b>Loss for the period</b>		(10.2)	(0.4)

**Non-GAAP measure: Earnings before interest, taxation, depreciation, amortisation, impairment and exceptional items (EBITDA)**

	Notes	52 weeks ended 1 December 2013 £m	53 weeks ended 2 December 2012 £m
Operating (loss)/profit		(3.6)	3.2
Adjustments for:			
Depreciation of property, plant and equipment	3.2.1	32.6	22.8
Amortisation expense	3.1.1	9.5	6.2
Impairment of property, plant and equipment <sup>1</sup>	3.2.1	0.5	0.1
Impairment of intangible assets	3.1.1	0.8	-
Exceptional items <sup>1</sup>	2.1.5	4.5	2.4
<b>EBITDA</b>		44.3	34.7

<sup>1</sup>Included with Exceptional items is a £0.2 million impairment reversal (see Note 2.1.5).

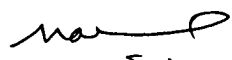
**Statement of comprehensive income  
for the 52 weeks ended 1 December 2013**

	52 weeks ended 1 December 2013	53 weeks ended 2 December 2012
	£m	£m
<b>Loss for the period</b>	<b>(10.2)</b>	<b>(0.4)</b>
<b>Other comprehensive income:</b>		
<b>Items that will not be reclassified to profit or loss</b>		
Cash flow hedges		
- Gains/(losses) arising on interest rate swaps	0.4	(0.2)
	0.4	(0.2)
<b>Items that may be subsequently reclassified to profit or loss</b>		
Cash flow hedges		
- Gains/(losses) arising on forward foreign exchange contracts	0.5	(1.8)
- (Gains)/losses transferred to property, plant and equipment	(0.3)	1.5
	0.2	(0.3)
Other comprehensive income for the period, net of tax	(0.6)	(0.5)
<b>Total comprehensive income for the period</b>	<b>(9.6)</b>	<b>(0.9)</b>

**Balance sheet  
as at 1 December 2013**

		1 December 2013	2 December 2012
	Notes	£m	£m
<b>Non-current assets</b>			
Intangible assets	3.1.1	27.0	21.6
Property, plant and equipment	3.2.1	224.0	208.2
Deferred tax asset	2.2.2	7.9	7.9
Available-for-sale financial asset	3.3.1	0.4	0.4
Investment in joint ventures	3.4.1	58.9	-
		318.2	238.1
<b>Current assets</b>			
Inventories	3.5.1	23.9	17.5
Trade and other receivables	3.5.2	107.5	91.8
Derivative financial instruments	4.3.1	-	0.2
Cash and cash equivalents	3.5.3	8.6	16.0
		140.0	125.5
<b>Total assets</b>		458.2	363.6
<b>Current liabilities</b>			
Trade and other payables	3.5.4	(278.8)	(239.7)
Borrowings	4.1.2	(3.3)	(3.7)
Obligations under finance leases	4.1.3	(25.0)	(19.8)
Derivative financial instruments	4.3.1	(0.2)	(0.4)
Provisions	3.6.1	(0.1)	(0.1)
		(307.4)	(263.7)
<b>Net current liabilities</b>		(167.4)	(138.2)
<b>Non-current liabilities</b>			
Borrowings	4.1.2	(6.2)	(45.6)
Obligations under finance leases	4.1.3	(126.9)	(31.1)
Provisions	3.6.1	(2.8)	(2.0)
Deferred tax liability	2.2.2	(0.4)	(0.4)
		(136.3)	(79.1)
<b>Net assets</b>		14.5	20.8
<b>Equity</b>			
Share capital	4.5.1	-	-
Share premium	4.5.1	360.3	360.3
Other reserves	4.5.1	6.3	2.4
Retained earnings		(352.1)	(341.9)
<b>Total equity</b>		14.5	20.8

The financial statements on pages 16 to 52 were authorised for issue by the Board of Directors and signed on its behalf by:



Neill Abrams  
Legal and Business Affairs Director

Ocado Retail Limited  
Company Registration Number 3875000 (England and Wales)

30 June 2014

**Statement of cash flows**  
**for the 52 weeks ended 1 December 2013**

	Notes	52 weeks ended 1 December 2013 £m	53 weeks ended 2 December 2012 £m
<b>Cash flows from operating activities</b>			
Profit/(loss) before tax		(10.2)	1.3
Adjustments for:			
- Depreciation of property, plant and equipment	3.2.1	32.6	22.8
- Amortisation expense	3.1.1	9.5	6.2
- Impairment of property, plant and equipment and intangibles	3.1.1, 3.2.1	1.3	1.0
- Movement in provisions		0.2	0.1
- Share of Profit from Joint Venture		(0.9)	-
- Share-based payments charge	2.1.4	3.3	0.9
- Foreign exchange movements		-	(0.4)
- Net finance costs	4.2.1	6.5	1.9
Changes in working capital:			
- Movement in inventories		(6.4)	(3.2)
- Movement in trade and other receivables		(25.8)	6.6
- Movement in trade and other payables		28.8	46.6
<b>Cash generated from operations</b>		<b>38.9</b>	<b>83.8</b>
Interest paid		(6.5)	(5.7)
<b>Net cash flows from operating activities</b>		<b>32.4</b>	<b>78.1</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(57.7)	(63.3)
Borrowing costs capitalised in property, plant and equipment		(0.5)	-
Purchase of intangible assets		(15.7)	(14.2)
<b>Net cash flows from investing activities</b>		<b>(73.9)</b>	<b>(77.6)</b>
<b>Cash flows from financing activities</b>			
Proceeds from sale and leaseback of property, plant and equipment		53.5	-
Proceeds from the sale and leaseback of intangible assets		4.4	-
Proceeds from borrowings		-	34.4
Repayment of borrowings		(2.5)	(2.8)
Proceeds from asset-based financing arrangements		-	2.1
Repayments of obligations under finance leases		(21.6)	(20.9)
Settlement of forward foreign exchange contracts		0.3	(1.8)
<b>Net cash flows from financing activities</b>		<b>34.1</b>	<b>11.0</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(7.4)</b>	<b>11.6</b>
Cash and cash equivalents at the beginning of the period		16.0	4.3
Exchange adjustments		-	0.1
<b>Cash and cash equivalents at the end of the period</b>	3.5.3	<b>8.6</b>	<b>16.0</b>

**Statement of changes in equity  
for the 52 weeks ended 1 December 2013**

		Share capital	Share premium	Other reserves	Accumulated deficit	Total equity
	Notes	£m	£m	£m	£m	£m
<b>Balance at 27 November 2011</b>		-	360.3	2.0	(341.5)	20.8
Loss for the period		-	-	-	(0.4)	(0.4)
Other comprehensive income/(expense):						
Cash flow hedges						
- Losses arising on foreign exchange contracts	4.5.1(a)	-	-	(1.8)	-	(1.8)
- Losses arising on interest rate swaps	4.5.1(a)	-	-	(0.2)	-	(0.2)
- Losses transferred to property, plant and equipment	4.5.1(a)	-	-	1.5	-	1.5
<b>Total comprehensive expense for the period ended 27 November 2011</b>		-	-	(0.5)	(0.4)	(0.9)
Transactions with owners:						
- Capital contribution from parent	4.5.1	-	-	0.9	-	0.9
<b>Total transactions with owners</b>		-	-	0.9	-	0.9
<b>Balance at 2 December 2012</b>		-	360.3	2.4	(341.9)	20.8
Loss for the period		-	-	-	(10.2)	(10.2)
Other comprehensive income/(expense):						
Cash flow hedges						
- Gains arising on foreign exchange contracts	4.5.1(a)	-	-	0.5	-	0.5
- Gains arising on interest rate swaps	4.5.1(a)	-	-	0.4	-	0.4
- Gains transferred to property, plant and equipment	4.5.1(a)	-	-	(0.3)	-	(0.3)
<b>Total comprehensive expense for the period ended 2 December 2012</b>		-	-	0.6	(10.2)	(9.6)
Transactions with owners:						
- Capital contribution from parent	4.5.1	-	-	3.3	-	3.3
<b>Total transactions with owners</b>		-	-	3.3	-	3.3
<b>Balance at 1 December 2013</b>		-	360.3	6.3	(352.1)	14.5

## Notes to the financial statements

### Section 1- Basis of preparation

#### General information

Ocado Retail Limited (hereafter "the Company") is incorporated and domiciled in England and Wales. The Company changed its name from Ocado Limited to Ocado Retail Limited effective 16 June 2014. The address of its registered office is Titan Court, 3 Bishops Square, Hatfield Business Park, Hatfield, Hertfordshire, AL10 9NE. The financial period represents the 52 weeks ended 1 December 2013. The prior financial period represents the 53 weeks ended 2 December 2012.

#### Basis of preparation

The financial statements contain information about Ocado Retail Limited as an individual company and do not contain consolidated financial statements as the parent of a group. The financial statements have been prepared in accordance with International

Financial Reporting Standards (IFRS's) and International Financial Reporting Standards Interpretation Committee (IFRS IC) interpretations as endorsed by the European Union ("IFRS-EU"), and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

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

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.

#### Exemptions

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](http://www.ocadogroup.com).

#### Standards, amendments and interpretations adopted by the Company in 2012/13, or issued but are not yet effective, and which have not been early adopted by the Company:

The Company has considered the following new standards, interpretations and amendments to published standards that are effective for the Company for the financial period beginning 3 December 2012 and concluded that they are either not relevant to the Company or that they would not have a significant impact on the its financial statements:

- IFRS 7 (amendment), "Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments"
- IFRS 9 (amendment), "Financial Instruments"
- Amendments to various IFRSs and IASs arising from the IASB's annual improvements project

The following new standards, interpretations and amendments to published standards and interpretations which are relevant to the Company have been issued but are not effective for the financial period beginning 3 December 2012 and have not been adopted early:

- IFRS 2 (amendment), "Share-based Payment"
- IAS 24 (amendment), "Related Party Disclosures"
- Amendments to various IFRSs and IASs arising from the IASB's annual improvements project

#### Accounting policies

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

#### Foreign currency translation

##### Functional and presentation currency

Items included in the financial statements of the Company's are measured using the currency of the primary economic environment in which the Company 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 remeasured. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

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

### **Critical accounting estimates and assumptions**

The preparation of financial statements require the use of certain judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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 set out below. Sensitivities to the estimates and assumptions are provided, where relevant, in the related notes:

- Recognition of deferred tax assets (Note 2.2);
- Intangible assets — capitalised software (Note 3.1);
- Property, plant and equipment (Note 3.2);
- Trade and other receivables — supplier income (Note 3.5);
- Leases (Note 4.1); and
- Going concern basis including its effect on the impairment of assets (see below).

### **Going concern basis including its effect on the impairment of assets**

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

After making appropriate enquiries and having considered the business activities as set out in the Strategic report on page 2, the facts described above and the Company's principal risks and uncertainties, the Directors are satisfied that the Company and the Group as a whole have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

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

The 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. Based on the future projections referred to above, the Board does not consider that any further impairment of assets is required. There are a large number of assumptions and estimates involved in calculating these future projections, including management's expectations of:

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

## **Section 2 – Results for the year**

### **2.1 Profit/loss before tax**

#### **Accounting policies**

##### **Revenue**

Revenue comprises the fair value of consideration received or receivable for the sale of goods and services. Sales from retail 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. Delivery charges are included in revenue.

Revenue is recognised when the significant risks and rewards of ownership of the goods have been transferred to the customer, which is usually upon delivery of goods, or over the period in which services are rendered. Revenue is recorded when the collection of the amount due is reasonably assured. Income from "Ocado Smart Pass", the Group's discounted pre-pay membership scheme, is recognised in the period to which it relates on an accruals basis.

Initial licence contract revenues are recognised over a term which is specific to individual customer contracts. For services, the term is usually the period over which services are rendered. For the licence of technology asset, the revenue is usually recognised over a period consistent with the expected life of the related technology assets. Annual licence contract revenues, including associated service and operational fees, are recognised as income in the relevant period.



Amounts received in advance for services are deferred and recognised as revenue over a term which is specific to individual customers.

#### **Cost of sales**

Cost of sales represents the cost of groceries and other products the Company sells, any associated licence fees which are linked to the volume of sales of specific products or product groups, including the branding and sourcing fees payable to Waitrose, adjustments to inventory, and charges for transportation of goods from a supplier to a CFC.

#### **Other income**

Other income comprises the fair value of consideration received or receivable for advertising services provided by Ocado Retail Limited to suppliers and other third parties on the Webshop, commission income, sublease payments receivable and amounts receivable not in the ordinary course of business.

At the period end, the Company is required to estimate supplier income due from annual agreements. Estimates are required due to the fact that the majority of these agreements end after the financial year end of the Company, which results in the Company only receiving firm confirmation of amounts due after the period end. This income is estimated on historical data and review of major contracts with suppliers.

#### **Employee benefits**

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 to which they relate.

#### **Distribution costs**

Distribution costs consist of all the costs incurred, excluding product costs, to the point of sale, usually the customer's home. This includes the payroll-related expenses for the picking, dispatch and delivery of product sold to the point of sale, the cost of making those deliveries, including fuel, tolls, maintenance of vehicles, the operating costs of the properties required for the picking, dispatch and onward delivery operations and all associated depreciation, amortisation and impairment charges, call centre costs and payment processing charges.

#### **Administrative expenses**

Administrative expenses consist of all IT costs, advertising and marketing expenditure, employment costs of all central functions, which include legal, finance, human resources, marketing and procurement, rent and other property-related costs for the head office, all fees for professional services, expenses relating to the Group's share schemes and the depreciation, amortisation and impairment associated with IT equipment, software, fixtures and fittings.

#### **Exceptional items**

Exceptional items, as disclosed on the face of the income statement, are items that due to their material and non-recurring nature have been classified separately in order to draw them to the attention of the reader of the financial statements.

#### **2.1.1 Segmental reporting**

The principal activities of the Company are grocery retailing and the development and monetisation of IP and technology used for the online retailing, logistics and distribution of grocery and consumer goods, currently derived solely in the UK. The Company is not reliant on any major customer for 10% or more of its revenue.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, as required by IFRS 8. 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 activities of the Company are managed as one segment. The Company does not currently 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 chief operating decision-maker's main indicator of performance of the segment is EBITDA, which is reconciled to operating profit below the income statement.

## 2.1.2 Gross sales

	52 weeks ended 1 December 2013 £m	52 weeks ended 2 December 2012 £m
Revenue	792.1	678.6
VAT	50.4	41.9
Marketing vouchers	9.9	11.4
Gross sales	852.4	731.9

## 2.1.3 Operating (loss)/profit

	Notes	52 weeks ended 1 December 2013 £m	52 weeks ended 2 December 2012 £m
Operating (loss)/profit is stated after charging/(crediting) the following:			
Cost of inventories recognised as an expense		530.4	458.0
Employment costs	2.1.4	136.3	122.2
Amortisation expense	3.1.1	9.5	6.2
Depreciation of property, plant and equipment	3.2.1	32.6	22.8
Impairment of property, plant and equipment, included in:	3.2.1	0.3	1.0
- Distribution costs		0.2	0.1
- Administrative expenses		0.3	-
- Exceptional items	2.1.5	(0.2)	0.9
Loss/(profit) on disposal of property, plant and equipment		0.1	-
Impairment of receivables	4.4.2	0.2	-
Operating lease rentals			
- Land and buildings		5.2	3.7
- Other leases		0.4	0.4
Net foreign exchange gains		(0.1)	(0.7)

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

	52 weeks ended 1 December 2013 £'000	52 weeks ended 2 December 2012 £'000
Audit services		
- Statutory Company audit	124	136
Non-audit services		
- Advisory support and audit related services	60	49
	184	185

## 2.1.4 Employee information

Employment costs during the financial period were as follows:

	Notes	52 weeks ended 1 December 2013 £m	52 weeks ended 2 December 2012 £m
Staff costs during the period:			
Wages and salaries		137.6	124.0
Social security costs		11.9	11.4
Pension costs - defined contribution plans		2.9	1.7
Share-based payment expense		3.3	0.9
Total gross employment costs		155.7	138.0
Staff costs capitalised to Intangible assets	3.1.1	(15.1)	(11.5)
Staff costs capitalised to property, plant and equipment	3.2.1	(4.3)	(4.3)
Total employment cost expense		136.3	122.2

### Average monthly number of employees (including Executive Directors) by function:

Operational staff	4,967	4,595
Support staff	717	658
	5,684	5,253

The share-based payment expense relates to the Group's equity-settled share schemes for employees.

The key management of the Company comprises the Executive Directors. The Company also remunerates the Non-Executive Directors of Ocado Group plc, which are considered key management personnel by that company. Collectively their compensation is as follows:

	1 December 2013 £'000	2 December 2012 £'000
Salaries, annual bonus and other short-term employee benefits	3,831	1,876
Share-based payments	1,858	85
	5,689	1,961

Details of the movement in the Director's interests in ordinary shares pursuant to the Group's executive share options scheme (the "ESOS") outstanding during each period are as follows:

	1 December 2013		2 December 2012	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at the beginning of the period	766,850	1.12	1,338,146	1.21
Granted during the period	9,923	3.02	-	-
Forfeited during the period	-	-	(396,296)	1.48
Exercised during the period	(196,850)	1.02	(175,000)	1.00
Outstanding at the end of the period	579,923	1.19	766,850	1.12
Exercisable at the end of the period	570,000	1.16	766,850	1.12

During the period, Duncan Tatton-Brown was granted options over 9,923 ordinary shares of 2 pence each under the ESOS on 8 July 2013. The exercise price was fixed at £3.02 per share. The options will vest in July 2016. This was a one-off award of options to Duncan after joining the Company. The Company had, until mid-2013, a policy of issuing options to all new employees

shortly after joining the Company. Any such options are not subject to performance conditions other than the usual three year vesting period.

During the period, Neill Abrams exercised 100,000 ESOS options at an exercise price of 90.00 pence per ordinary share. Mark Richardson also exercised 96,850 ESOS options at an exercise price of 115.00 pence per ordinary share.

Details of the movement in the Director's interests in ordinary shares pursuant to the Group's joint share ownership scheme (the "JSOS") were as follows:

	1 December 2013		2 December 2012	
	Number of interests in ordinary shares	Weighted average price (£)	Number of interests in ordinary shares	Weighted average price (£)
Outstanding at the beginning of the period	28,020,075	1.74	28,417,100	2.00
Granted during the period	-	-	2,953,675	1.76
Forfeited during the period	-	-	(3,350,700)	2.18
Outstanding at the end of the period	28,020,075	1.97	28,020,075	1.74
Exercisable at the end of the period	17,363,975	1.89	10,858,000	1.82

Details of the movement in the number of interests in ordinary shares pursuant to the Group's Sharesave Scheme were as follows:

	1 December 2013		2 December 2012	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at the beginning of the period	25,336	1.06	30,980	1.16
Granted during the period	-	-	9,846	0.91
Forfeited during the period	-	-	(15,490)	1.16
Exercised during the period	-	-	-	-
Outstanding at the end of the period	25,336	1.57	25,336	1.06
Exercisable at the end of the period	-	-	-	-

There was no movement in the period in the Director's interests in ordinary shares pursuant to the non-employee share options. There are no performance criteria attached to these non-employee share options.

The highest paid Director's compensation is as follows:

	52 weeks ended 1 December 2013	53 weeks ended 2 December 2012
	£'000	£'000
Salaries, annual bonus and other short-term employee benefits	946	455
Pension costs - defined contribution plans	33	28
Equity-settled share based payments granted under the joint share ownership scheme	32	36
	1,011	519

### 2.1.5 Exceptional items

	52 weeks ended 1 December 2013	53 weeks ended 2 December 2012
	£m	£m
<b>Set up costs</b>		
- CFC2	1.3	1.2
- Non-food	0.2	0.3
<b>Impairment (reversal)/charge</b>	(0.2)	0.9
<b>Strategic operating agreement</b>		
- Legal and professional fees	3.2	-
- Exceptional finance costs	2.2	-
	6.7	2.4

#### Set up costs

During the year, the Company incurred further costs relating to the set-up of CFC2 of £1.3 million (2012: £1.2 million), which first delivered customer orders in February 2013, and officially went live in March 2013, and the set-up of the non-food business distribution centre of £0.2 million (2012: £0.3 million) which went live in January 2013.

#### Impairment of assets

As part of the review of the land, building and plant and machinery related to the Coventry spoke site, an impairment reversal of £0.2 million was identified.

In the prior year, land, buildings and plant and machinery with a net book value of £0.9 million were impaired due to it being superseded by CFC2.

#### Strategic operating agreement

In the current year, we announced our first strategic customer for our Intellectual Property ("IP") and operating services with the signing of a 25 year agreement with Morrisons. To facilitate the finalisation of the agreement, a number of one-off costs were incurred by the Company which reflects services from professional advisors. The agreement also allowed us to repay our £100 million loan facility which resulted in the full amortisation of the prepaid arrangement fees from 2012.

These one-off costs incurred amounted to £5.4 million.

## 2.2 Taxation

### Accounting policies

The tax charge 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 which case the tax is also recognised in other comprehensive income or directly in equity respectively.

#### Current taxation

Current tax is the expected tax payable on the taxable income for the period, 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. Recognition, therefore, involves judgement regarding the prudent forecasting of future taxable profits of the business and in applying an appropriate risk adjustment factor. The final outcome of some of these items may give rise to material profit and loss and/or cash flow variances. At the balance sheet date management has forecast that the

Company would generate future taxable profits against which existing tax losses could be relieved. The carrying amount of deferred tax assets is reviewed at each balance sheet date.

Deferred tax assets and liabilities are offset against each other when there is a legally enforceable right to offset current taxation assets against current taxation liabilities and it is the intention to settle these on a net basis.

## 2.2.1 Taxation – Income statement

	52 weeks ended 1 December 2013 £m	52 weeks ended 2 December 2012 £m
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:		
Origination and reversal of temporary differences	-	1.7
Total deferred tax	-	1.7
Income tax charge/(credit)	-	1.7

The tax on the Company's profit/(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 1 December 2013 £m	52 weeks ended 2 December 2012 £m
Profit/(loss) before tax	(10.2)	1.3
Effective tax credit at the UK tax rate of 23.3% (2012: 24.67%)	(2.4)	0.3
Effect of:		
Change in UK corporation tax rate	1.3	0.7
Group relief not paid for	0.2	-
Permanent differences	1.1	0.4
Tax losses for which no deferred tax asset recognised	-	0.8
Temporary differences on which no deferred tax recognised	(0.2)	(0.5)
Income tax charge/(credit) for the period	-	1.7

As enacted in Finance Act 2013, the standard rate of corporation tax in the UK changed from 24% to 23% with effect from 1 April 2013. Accordingly, the effective rate for the period is 23.3%.

## 2.2.2 Taxation — Balance sheet

Movement in the deferred tax asset is as follows:

	Tax losses carry-forwards £m
<b>As at 27 November 2011</b>	9.6
Effect of change in UK corporation tax rate	(0.7)
Tax losses recognised through the income statement	(1.0)
<b>As at 2 December 2012</b>	7.9
Effect of change in UK corporation tax rate	(1.3)
Tax losses recognised through the income statement	1.3
<b>As at 1 December 2013</b>	7.9

Movement in the unrecognised deferred tax asset is analysed below:

	Tax losses carry-forwards £m	Accelerated capital allowances £m	Share-based payments £m	Derivative financial instruments £m	Other short-term timing differences £m	Total £m
<b>As at 27 November 2011</b>	59.8	17.8	-	0.1	-	77.7
Adjustment in respect of prior periods	0.7	1.3	-	-	-	2.0
Effect of change in UK corporation tax rate	(5.0)	(1.4)	-	-	-	(6.4)
Potential movement in the period unrecognised through:						
- Income statement	0.8	(0.6)	-	-	0.1	0.3
- Equity	-	-	-	-	-	-
<b>As at 2 December 2012</b>	56.3	17.1	-	0.1	0.1	73.6
Adjustment in respect of prior periods	-	0.7	-	-	-	0.7
Effect of change in UK corporation tax rate	(7.4)	(2.3)	-	-	-	(9.7)
Potential movement in the period unrecognised through:						
- Income statement	(1.0)	1.5	-	-	(0.1)	0.4
- Equity	-	-	-	-	-	-
<b>As at 1 December 2013</b>	47.9	17.0	-	0.1	-	65.0

As at 1 December 2013 the Company had approximately £279.5 million of unutilised tax losses (2012: approximately £279.5 million) available for offset against future profits. A deferred tax asset of £7.9 million (2012: £7.9 million) has been recognised in respect of £39.6 million (2012: £34.4 million) of such losses, the recovery of which is supported by the expected level of future profits of the Company.

No deferred tax asset has been recognised in respect of the remaining losses on the basis that their future economic benefit is uncertain given the unpredictability of future profit streams. All tax losses, both recognised and unrecognised, can be carried forward indefinitely.

Movement in the recognised deferred tax liability is analysed below:

	Intangible assets £m
<b>As at 27 November 2011</b>	(0.4)
Recognised through the income statement	-
<b>As at 2 December 2012</b>	(0.4)
Recognised through the income statement	-
<b>As at 1 December 2013</b>	(0.4)

In a prior period, the Company recognised a deferred tax liability of £0.4 million in respect of intangible assets that management deemed to qualify for research and development corporation tax relief. After corporation tax relief, the timing of tax deductions in respect of expenditure incurred on these assets differs to the amortisation profile of the assets giving rise to the deferred tax liability. This liability will be unwound over the useful lives of the assets.

## Section 3 — Operating assets and liabilities

### 3.1 Intangible assets

#### Accounting policies

##### Intangible assets

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 lives of three to seven years. Costs relating to the development of computer software for internal use are capitalised once all the development phase recognition criteria of IAS 38 "Intangible Assets" are met. When the software is available for its intended use, these costs are amortised in equal annual amounts over the estimated useful life of the software. Amortisation and impairment of computer software or licences are charged to administrative expenses in the period in which they arise.

Amortisation on other non-current assets is calculated on a straight line basis from the date on which they are brought into use, charged to administrative expenses and is calculated based on the useful lives indicated below:

Internally generated assets	3-5 years, or the lease term if shorter
Other intangible assets	3-7 years, or the lease term if shorter

Amortisation periods and methods are reviewed annually and adjusted if appropriate.

##### Cost capitalisation

Internally generated assets, where it is clear that the assets developed is technically feasible and will be completed and that the asset will generate economic benefit, are capitalised as an intangible asset. 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.

##### Estimation of useful life

The charge in respect of periodic amortisation is derived by estimating an asset's expected useful life and the expected residual value at the end of its life. Increasing an asset's expected life or its residual value would result in a reduced amortisation charge in the income statement. The useful life is determined by management at the time the software is acquired and brought into use and is regularly reviewed for appropriateness. For computer software licences, the useful life represents management's view of the expected period over which the Group will receive benefits from the software. For unique software products developed and controlled by the Group, the life is based on historical experience with similar products as well as anticipation of future events which may impact their useful life, such as changes in technology.



### 3.1.1 Intangible assets

	Internally generated assets £m	Other intangible assets £m	Total intangible assets £m
<b>Cost</b>			
At 27 November 2011	30.2	14.8	45.0
Additions	-	0.9	0.9
Internal development costs capitalised	13.6	-	13.6
Disposals	-	(2.1)	(2.1)
At 2 December 2012	43.8	13.6	57.4
<b>Cost</b>			
At 2 December 2012	43.8	13.6	57.4
Additions	8.3	0.9	9.2
Internal development costs capitalised	15.1	-	15.1
Disposals	(9.2)	(1.1)	(10.3)
<b>At 1 December 2013</b>	<b>58.0</b>	<b>13.4</b>	<b>71.4</b>
<b>Accumulated amortisation</b>			
At 27 November 2011	(19.4)	(12.3)	(31.7)
Charge for the period	(5.3)	(0.9)	(6.2)
Impairment	-	-	-
Disposals	-	2.1	2.1
At 2 December 2012	(24.7)	(11.1)	(35.8)
<b>Accumulated amortisation</b>			
At 2 December 2012	(24.7)	(11.1)	(35.8)
Charge for the period	(8.6)	(0.9)	(9.5)
Impairment	(0.8)	-	(0.8)
Disposals	0.8	0.9	1.7
<b>At 1 December 2013</b>	<b>(33.3)</b>	<b>(11.1)</b>	<b>(44.4)</b>
<b>Net book value</b>			
At 2 December 2012	19.1	2.5	21.6
<b>At 1 December 2013</b>	<b>24.7</b>	<b>2.3</b>	<b>27.0</b>

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

	1 December 2013 £m	2 December 2012 £m
Cost	12.8	4.3
Accumulated amortisation	(4.8)	(2.9)
<b>Net book value</b>	<b>8.0</b>	<b>1.4</b>

During the year, the Company entered into a sale and 25 year leaseback transaction with a newly created joint venture, MHE JV Co. Of the current period disposals of £10.3 million, £8.5 million relates to the sale of assets to MHE JV Co, of which £8.5 million were leased back and are included in total additions of £9.2 million.

For the 52 weeks ended 1 December 2013, internal development costs capitalised represented approximately 94% (2012: 94%) of expenditure on intangible assets and 12% (2012: 11%) of total capital spend including property, plant and equipment.

## 3.2 Property, plant and equipment

### Accounting policies

#### Property, plant and equipment

Property, plant and equipment excluding land are stated at cost less accumulated depreciation and any recognised impairment loss. Cost includes the original purchase price of the asset 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 lives. Residual values and expected useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period.

Land is held at cost and not depreciated. Depreciation on other non-current assets is charged to both distribution costs and administrative expenses and is calculated based on the useful lives indicated below:

Freehold buildings and leasehold properties	25 years, or the lease term if shorter
Fixtures and fittings	5-10 years
Plant and machinery	3-20 years
Motor vehicles	2-7 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.

Property, plant and equipment represents 44% of the total asset base of the Company in 2013 (2012: 57%). Therefore, the estimates and assumptions made to determine the carrying value of property, plant and equipment and related depreciation are important to the Company's financial position and performance.

For more information on the Company's policy on capitalisation of borrowings costs, see Note 4.2.

#### Estimation of useful life

The charge in respect of periodic depreciation is derived by estimating an asset's expected useful life and the expected residual value at the end of its life. Increasing an asset's expected life or its residual value would result in a reduced depreciation charge in the income statement. 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 useful life, such as changes in technology.

#### Impairment of non-financial assets

An annual impairment review is performed and assets which do not have indefinite useful lives are subject to an annual depreciation or amortisation 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 the end of each reporting period.

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 prepares detailed forward projections which are constantly updated and refined. Based on these projections the Board does not consider that any further impairment of assets is required, other than that recognised in the income statement.

### 3.2.1 Property, plant and equipment

	Land and buildings	Fixtures, fittings, plant and machinery	Motor vehicles	Total
	£m	£m	£m	£m
<b>Cost</b>				
At 27 November 2011	45.5	175.0	31.6	252.1
Additions	0.2	82.8	6.8	89.8
Disposals	-	(0.4)	(4.3)	(4.7)
At 2 December 2012	45.7	257.4	34.1	337.2
Additions	1.2	149.7	9.1	160.0
Disposals	(4.8)	(110.4)	(4.3)	(119.5)
<b>At 1 December 2013†</b>	<b>42.1</b>	<b>296.7</b>	<b>38.9</b>	<b>377.7</b>
<b>Accumulated depreciation and impairment</b>				
At 27 November 2011	(12.7)	(83.3)	(13.9)	(109.9)
Charge for the period	(1.7)	(15.3)	(5.8)	(22.8)
Impairment	(0.8)	(0.2)	-	(1.0)
Disposals	-	0.4	4.3	4.7
At 2 December 2012	(15.2)	(98.4)	(15.4)	(129.0)
Charge for the period	(1.6)	(24.2)	(6.9)	(32.6)
Impairment	0.2	(0.5)	-	(0.3)
Disposals	(0.1)	4.1	4.3	8.3
<b>At 1 December 2013</b>	<b>(16.7)</b>	<b>(119.0)</b>	<b>(18.0)</b>	<b>(153.7)</b>
<b>Net book value</b>				
At 2 December 2012	30.5	159.0	18.7	208.2
<b>At 1 December 2013</b>	<b>25.4</b>	<b>177.7</b>	<b>20.9</b>	<b>224.0</b>

† Cost includes cumulative capitalised borrowing costs of £1.9 million (2012: £1.9 million). The capitalisation rate for both periods is the same as that incurred on the underlying borrowings, being LIBOR plus 3.5%. Borrowing costs are capitalised on specific borrowings which are wholly attributable to qualifying assets.

Of the current period impairment charge, a reversal of £0.2 million (2012: £0.9 million) has been included within exceptional costs.

The net book value of non-current assets held under finance leases is set out below:

	Land and buildings	Fixtures, fittings, plant and machinery	Motor vehicles	Total
	£m	£m	£m	£m
At 2 December 2012				
Cost	26.9	69.6	33.4	129.9
Accumulated depreciation and impairment	(13.3)	(43.9)	(14.9)	(72.1)
Net book value	13.6	25.7	18.5	57.8
<b>At 1 December 2013</b>				
Cost	29.3	171.9	38.1	239.3
Accumulated depreciation and impairment	(14.8)	(56.6)	(17.5)	(88.9)
<b>Net book value</b>	<b>14.5</b>	<b>115.3</b>	<b>20.6</b>	<b>150.4</b>

The movement in cost includes assets of £1.7 million (2012: £2.1 million) reclassified from owned assets to assets held under finance lease following asset-based financing arrangements.

Included within property, plant and equipment is capital work-in-progress for land and buildings of £0.1 million (2012: £5.6 million) and capital work-in-progress for fixtures, fittings, plant and machinery of £5.2 million (2012: £80.0 million).

Property, plant and equipment with a net book value of £14.0 million (2012: £68.9 million) has been pledged as security for the secured loans (Note 4.1.2).

### 3.3 Available-for-sale financial assets

#### Accounting policies

##### 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 considers 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. Valuations below cost are recognised as impairment losses in the income statement. Dividends are recognised in the income statement when the right to receive payment is established.

#### 3.3.1 Available-for-sale financial assets

	1 December 2013 £m	2 December 2012 £m
Unlisted equity investment - cost and net book value	0.4	0.4

The unlisted equity investment comprises a 25% interest in Paneltex Limited ("Paneltex"), which has not been treated as an associated undertaking as the Company does not have significant influence over the company. In arriving at this decision, the Board has reviewed the conditions set out in IAS 28 "Investments in Associates" and concluded that despite the size of its holding it is unable to participate in the financial and operating policy decisions of Paneltex due to the position of the majority shareholder as Executive Managing Director. The relationship between the Company and the company is at arm's length.

The shares of Paneltex are not quoted in an active market and their fair value cannot be reliably measured. As such, the investment in Paneltex is measured at cost less accumulated impairment.

The 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.

### 3.4 Investment in Joint ventures

#### Accounting policies

The Company's share of the results of joint ventures is included in the Consolidated Income Statement and is accounted for using the equity method of accounting. Investments in joint ventures are carried in the Consolidated Balance Sheet at cost plus post-acquisition changes in the Company's share of the net assets of the entity, less any impairment in value. The carrying values of investments in joint ventures include acquired goodwill.

If the Company's share of losses in a joint venture or associate equals or exceeds its investment in the joint venture or associate, the Company does not recognise further losses, unless it has incurred obligations to do so or made payments on behalf of the joint venture or associate.

Unrealised gains arising from transactions with joint ventures and associates are eliminated to the extent of the Company's interest in the entity.

### 3.4.1 Investment in Joint ventures

In the period, the Company acquired a 50% equity interest valued at £58.0 million in MHE JVCo, a joint venture company. The Company's share of profit after tax for the year is detailed as follows:

	1 December 2013 £m
Company's share of revenue	1.0
Company's share of expenses, inclusive of tax	(0.1)
Company's share of profit after tax	0.9

### 3.5 Working capital

#### Accounting policies

##### 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 valued using the weighted 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.

##### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets. The Company's loans and receivables comprise "Trade and other receivables" and "Cash and cash equivalents" in the balance sheet.

##### Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the income statement.

Other receivables are non-interest bearing and are recognised initially at fair value, and subsequently at amortised cost, reduced by appropriate allowances for estimated irrecoverable amounts.

##### Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks, short-term deposits with a maturity of three months or less at the balance sheet date 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.

#### 3.5.1 Inventories

	1 December 2013 £m	2 December 2012 £m
Goods for resale	23.5	15.3
Consumables	0.4	2.2
	23.9	17.5

Write-downs of inventories recognised as an expense amounted to £0.5 million (2012: £nil) in the income statement. No security has been granted over inventories.

### 3.5.2 Trade and other receivables

	Notes	1 December 2013 £m	2 December 2012 £m
Trade receivables		23.6	8.4
Less: provision for impairment of trade receivables	4.4.2	(0.5)	(0.3)
Net trade receivables		23.1	8.1
Other receivables		16.1	15.9
Prepayments		5.3	6.2
Amounts due from group undertakings		61.7	61.1
Accrued income		1.3	0.5
		107.5	91.8

No security has been granted over trade and other receivables.

Included in other receivables is £7.1 million (2012: £5.8 million) due from suppliers in relation to supplier funded promotional activity and £6.2 million (2012: £5.4 million) due from suppliers in relation to volume-based trigger amounts.

The ageing analysis of trade and other receivables (excluding prepayments), including the provision for impairment, is set out below:

	1 December 2013		2 December 2012	
	Gross £m	Impairment £m	Gross £m	Impairment £m
Not past due	94.7	-	79.9	-
Past due 0-3 months	5.7	(0.3)	5.7	(0.1)
Past due 3-6 months	0.1	(0.1)	0.1	(0.1)
Past due over 6 months	0.2	(0.1)	0.2	(0.1)
	100.7	(0.5)	85.9	(0.3)

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 £5.4 million (2012: £5.8 million) and relate to a number of suppliers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	1 December 2013 £m	2 December 2012 £m
Past due 0-3 months	5.4	5.7
Past due 3-6 months	-	0.1
Past due over 6 months	-	-
	5.4	5.8

### 3.5.3 Cash and cash equivalents

	1 December 2013 £m	2 December 2012 £m
Cash at bank and in hand	8.6	16.0

### 3.5.4 Trade and other payables

	1 December 2013 £m	2 December 2012 £m
Trade payables	53.2	59.8
Taxation and social security	3.7	4.8
Accruals	41.4	24.6
Amounts due to group undertakings	149.6	147.3
Deferred income	30.9	3.2
	278.8	239.7

Deferred income represents the value of delivery income received under the Ocado Delivery Pass scheme allocated to future periods, upfront licence fees from the Morrisons strategic operating agreement, lease incentives, and media income from suppliers which relate to future periods.

### 3.6 Provisions

#### Accounting policies

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 cash outflow.

#### 3.6.1 Provisions

	Dilapidations £m
<b>As at 27 November 2011</b>	0.6
Charged to the income statement	
- additional provision	1.6
- unused amounts reversed	-
Used during the period	(0.1)
Unwind of discount	-
<b>As at 2 December 2012</b>	2.1
Charged to the income statement	
- additional provision	0.7
Used during the period	-
Unwind of discount	0.1
<b>As at 1 December 2013</b>	2.9

#### Analysis of total provisions as at 2 December 2012

	Dilapidations £m
Current	0.1
Non-current	2.0
	2.1

#### Analysis of total provisions as at 1 December 2013

	Dilapidations £m
Current	0.1
Non-current	2.8
	2.9

### **Dilapidations**

The dilapidations provision is based on the future expected repair costs required to restore the Group's leased buildings and vans to their fair condition at the end of their respective lease terms.

The CFC1 lease expires in 2032, with leases for the spokes expiring between 2014 and 2068. Contractual amounts are due to be incurred at the end of the respective lease terms.

Leases for vans run for five years, with the contractual obligation payable at the end of the five year lease term. If a non-contractual option to extend individual leases for a further six months is exercised by the Group, the contractual obligation remains the same but is deferred by six months.

## **Section 4 — Capital structure and financing costs**

### **4.1 Leases and borrowings**

#### **Accounting policies**

##### **Borrowings**

Interest bearing bank loans and overdrafts are initially recorded at fair value, net of attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being capitalised to qualifying assets or recognised in the income statement over the period of the borrowings on the effective interest rate basis.

##### **Leased assets**

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the 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, measured at the inception of the lease. The resulting lease obligations are included in liabilities, net of attributable transaction costs. Finance costs on finance leases are charged directly to the income statement on the effective interest rate basis.

##### **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.

##### **Sale and leaseback**

A sale and leaseback transaction is one where the Group sells an asset and immediately reacquires the use of the asset by entering into a lease with the buyer.

The leaseback transaction is classified as a finance lease when the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leasebacks are classified as operating leases.

For sale and finance leasebacks, any profit from the sale is deferred and amortised over the lease term. For sale and operating leasebacks, generally the assets are sold at fair value, and accordingly the profit or loss from the sale is recognised immediately in the Group Income Statement.

##### **Lease incentives**

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



#### Critical accounting estimates and assumptions

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 affected depending on the relative size of the amounts apportioned to capital repayments and depreciation. IAS 17 "Leases" requires the Company to consider splitting property leases into their component parts (i.e. land and building elements). As only the building elements could be considered as a finance lease, management must make a judgement, based on advice from suitable experts, as to the relative value of the land and buildings.

#### 4.1.1 Borrowings and finance leases

	Notes	1 December 2013 £m	2 December 2012 £m
<b>Current liabilities</b>			
Borrowings	4.1.2	3.3	3.7
Obligations under finance leases	4.1.3	25.0	19.8
		28.3	23.5
<b>Non-current liabilities</b>			
Borrowings	4.1.2	6.2	45.6
Obligations under finance leases	4.1.3	126.9	31.1
		133.1	76.7
<b>Total borrowings and finance leases</b>		161.4	100.2

#### 4.1.2 Borrowings

	Less than one year  £m	Between one year and two years £m	Between two years and five years £m	Total  £m
<b>As at 2 December 2012</b>				
Secured loans	3.7	6.1	39.5	49.3
Total borrowings	3.7	6.1	39.5	49.3
<b>As at 1 December 2013</b>				
Secured loans	3.3	4.0	2.2	9.5
<b>Total borrowings</b>	3.3	4.0	2.2	9.5

The secured loans outstanding at period end can be analysed as follows:

Principal amount	Inception	Secured over	Current interest rate	Instalment frequency	Final payment due	Carrying amount as at 1 December 2013 £m	Carrying amount as at 2 December 2012 £m
£m							
8.0	May-07	Property, plant and equipment	Clearing bank base rate + 3.0%	Quarterly	Feb-15	2.4	3.6
1.5	Dec-06	Freehold property	LIBOR + 2.75%	Quarterly	Feb-15	0.5	0.7
1.5	Feb-09	Freehold property	LIBOR + 2.75%	Quarterly	Feb-15	0.8	0.9
2.8	Dec-09	Freehold property	LIBOR + 3.5%	Quarterly	Jan-13	1.7	2.1
2.6	Jul-12	Freehold property	LIBOR + 2.75%	Quarterly	Jul-15	2.2	2.5
38.9	Jul-10	Property, plant and equipment	LIBOR + 3.5%	Note †	n/a	-	37.2
2.5	Jul-12	Property, plant and equipment	9.12% ††	Monthly	Jul-17	1.9	2.3
						9.5	49.3
Notes							
Disclosed as:							
Current					4.1.1	3.3	3.7
Non-current					4.1.1	6.2	45.6
						9.5	49.3

† During the period, £85.3 million being the full amount outstanding on the £100 million credit facility of the Group was repaid and the facility was cancelled. Of this amount, £80.0 million was paid by Morrisons on the disposal of Last Mile Developments Limited ("LMD") and the balance was repaid as part of the sale and leaseback transaction for the MHE in CFC2.

†† Calculated as the effective interest rate, the calculations of which includes an optional balloon payment at the end of the term.

#### 4.1.3 Obligations under finance leases

	1 December 2013 £m	2 December 2012 £m
Obligations under finance leases due:		
Within one year	25.0	19.8
Between one and two years	20.7	11.5
Between two and five years	46.3	13.8
After five years	59.9	5.8
Total obligations under finance leases	151.9	50.9

		1 December 2013 £m	2 December 2012 £m
	Notes		
Minimum lease payments due:			
Within one year		31.9	22.2
Between one and two years		26.8	13.1
Between two and five years		59.4	16.0
After five years		67.6	6.4
		185.7	57.7
Less: future finance charges		(33.8)	(6.8)
<b>Present value of finance lease liabilities</b>		<b>151.9</b>	<b>50.9</b>
<b>Disclosed as:</b>			
Current	4.1.1	25.0	19.8
Non-current	4.1.1	126.9	31.1
		151.9	50.9

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.

## 4.2 Finance income and costs

### Accounting policy

#### 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 which are not capitalised are charged to finance costs, using the effective interest rate method.

#### 4.2.1 Finance income and costs

	52 weeks ended 1 December 2013 £m	53 weeks ended 2 December 2012 £m
Interest on cash balances	-	-
Interest on loans to group undertakings	2.1	2.1
<b>Finance income</b>	<b>2.1</b>	<b>2.1</b>
Borrowing costs		
- Obligations under finance leases	(4.7)	(3.1)
- Borrowings	(2.0)	(2.4)
Capitalised borrowing costs	0.4	1.6
Fair value movement on derivative financial instruments	(0.2)	(0.1)
<b>Finance costs</b>	<b>(6.5)</b>	<b>(4.0)</b>
<b>Net finance costs</b>	<b>(4.4)</b>	<b>(1.9)</b>

## 4.3 Derivative financial instruments

### Accounting policies

#### Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the contract date and are subsequently measured at their fair value at each balance sheet date. The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the item being hedged. At 1 December 2013 the Company's derivative financial instruments consist of interest rate swaps which are designated as cash flow hedges of future interest payments, and forward foreign exchange contracts which are designated as cash flow hedges of highly probable forecast transactions.

The Company documents at the inception of the hedge the relationship between hedging instruments and hedged items, the risk management objectives and strategy and its assessment of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

This assessment is performed retrospectively at each financial reporting period. Movements on the hedging reserve within shareholders' equity are shown in the statement of comprehensive income. The full fair value of hedging derivatives are classified as current when the remaining maturity of the hedged item is less than 12 months.

#### Cash flow hedging

The effective portion of changes in the fair value of derivatives that are designated as cash flow hedges and qualify for hedge accounting is recognised in 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 within the depreciation expense. During the period all the Company's cash flow hedges were 100% effective and there is therefore no ineffective portion recognised in profit or loss.

#### 4.3.1 Derivative financial instruments

	1 December 2013 £m	2 December 2012 £m
<b>Derivative asset</b>		
Forward foreign exchange contracts (cash flow hedges)	-	0.2
<b>Derivative liability</b>		
Forward foreign exchange contracts (cash flow hedges)	(0.2)	(0.3)
Interest rate swaps (cash flow hedges)	-	(0.1)

#### Forward foreign exchange contracts

The notional principal amounts of the outstanding forward foreign exchange contracts at 1 December 2013 were €21.8 million (2012: €22.8 million). The corresponding amounts in sterling at 1 December 2013 were £18.3 million (2012: £18.6 million).

The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next fourteen months. Cumulative gains and losses recognised in the hedging reserve within other comprehensive income are £0.4 million of gains (2012: £0.4 million of losses). These gains are recognised in the income statement in periods during which the hedged forecast transaction affects the income statement, which for property, plant and equipment is over the useful life of the asset (3 to 10 years).

#### Interest rate swap

During the year, the Company terminated all interest rate swaps upon cancellation of the £100 million credit facility. As a result, there were no notional amounts of interest rate swaps as at 1 December 2013. As at 2 December 2012, the total notional amount of interest rate swaps was £21.6 million representing 41.6% of gross Company borrowings.

The swaps have been accounted for as cash flow hedges with interest payable on borrowings designated as the hedged item. The hedged item and the hedging instrument have the same critical terms and thus the hedge was highly effective for the period.

#### 4.4 Financial instruments

##### Accounting policies

Financial assets and financial liabilities are recognised on the balance sheet when the Company becomes a party to the contractual provisions of the instrument.

The Company classifies its financial instruments in the following categories:

- Available-for-sale;
- Loans and receivables;
- Other financial liabilities at amortised cost; and
- Financial assets and liabilities at fair value through 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.

### **Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

### **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 include but are not limited to:

- Financial difficulty indicators;
- Breach of contract such as missed payments;
- Fraud;
- Bankruptcy; and
- Disappearance of an active market.

The amount of the loss is measured as the difference between the asset's carrying value and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The asset's carrying value is reduced and the loss recognised in the income statement.

If, in a subsequent period, the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the income statement.

#### **Available-for-sale financial assets**

Equity investments classified as available-for-sale and held at cost are reviewed annually to identify if an impairment loss has occurred. The amount of the impairment loss is measured as the difference between the carrying value of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses recognised in the income statement on equity investments are not reversed.

#### **4.4.1 Fair value of financial instruments**

Financial instruments carried at fair value in the balance sheet comprise the derivative assets and liabilities, see Note 4.3.1. The Company uses the following hierarchy for determining and disclosing the fair value of these financial instruments:

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

The Company's derivative assets and liabilities are all classified as level 2.

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

		1 December 2013		2 December 2012	
		Carrying value	Fair value	Carrying value	Fair value
	Notes	£m	£m	£m	£m
<b>Financial assets</b>					
Cash and cash equivalents	3.5.3	8.6	8.6	16.0	16.0
Trade receivables	3.5.2	23.1	23.1	8.1	8.1
Other receivables (incl. accrued income, excl. prepayments)	3.5.2	17.4	17.4	16.4	16.4
Amounts due from group undertakings	3.5.2	61.7	61.7	61.1	61.1
Derivative assets	4.3.1	-	-	0.2	0.2
Available-for-sale financial asset	3.3.1	0.4	0.4	0.4	0.4
<b>Total financial assets</b>		<b>111.3</b>	<b>111.3</b>	<b>102.2</b>	<b>102.2</b>
<b>Financial liabilities</b>					
Trade payables	3.5.4	(53.2)	(53.2)	(59.8)	(59.8)
Accruals	3.5.4	(41.4)	(41.4)	(24.6)	(24.6)
Amounts due to group undertakings	3.5.4	(149.6)	(149.6)	(147.3)	(147.3)
Borrowings	4.1.2	(9.5)	(9.6)	(49.3)	(52.4)
Finance lease obligations	4.1.3	(151.9)	(152.0)	(50.9)	(51.1)
Derivative liabilities	4.3.1	(0.2)	(0.2)	(0.4)	(0.4)
<b>Total financial liabilities</b>		<b>(405.8)</b>	<b>(406.0)</b>	<b>(332.3)</b>	<b>(335.6)</b>

The derivative assets relate to forward foreign exchange contracts, the fair values of which were determined with reference to the forward rate to the date of maturity for all outstanding contracts at period end.

The derivative liabilities relate to forward foreign exchange contracts and interest rate swaps. The fair value of the forward foreign exchange contracts was determined with reference to the forward rate to the date of maturity for all outstanding forward foreign exchange contracts at period end. The fair value of the interest rate swaps was determined with reference to the fixed rate to the date of maturity for all outstanding interest rate swaps at period end.

The Company's only available-for-sale financial asset consists of an unlisted equity investment of which the fair value cannot be reliably determined, and which is therefore measured at cost. There has been no movement in this investment during the period.

The fair values of cash and cash equivalents, receivables, payables and accruals of a maturity of less than one financial period are assumed to approximate to their carrying values but for completeness are included in this analysis.

The interest rate used to discount borrowings is based on a LIBOR plus margin measure blended for the type of security offered and was calculated as 3.0% (2012: 3.52%).

The fair values of all other financial assets and liabilities have been calculated by discounting the expected future cash flows at prevailing market interest rates.

#### 4.4.2 Credit risk

The Company's exposures to credit risk arise from holdings of cash and cash equivalents, trade and other receivables (excluding prepayments) and derivative assets.

##### Exposure to credit risk

The carrying value of these financial assets, as set out in Note 4.4.1, represents the maximum credit exposure. No collateral is held as security against these assets.

##### Cash and cash equivalents

The Company's exposure to credit risk on cash and cash equivalents is managed by investing in banks and financial institutions with strong credit ratings and by regular review of counterparty risk in light of the current economic climate. The Company's guideline is to maintain transactional bank accounts and term deposits with financial institutions which carry a Moody's rating of Aa3/P1 for long-term and short-term deposits.

##### Trade and other receivables

Trade and other receivables at the period end comprise mainly amounts due from subsidiary undertakings, monies due from suppliers, which are considered of a good credit quality, as well as VAT receivable and prepayments. 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:

		1 December 2013 £m	2 December 2012 £m
	Notes		
At the beginning of the period		(0.3)	(0.3)
Increase in provision for impairment of receivables		(0.2)	(0.3)
Uncollectible amounts written off		-	0.2
Recovery of amounts previously provided		-	0.1
<b>At the end of the period</b>	<b>3.5.2</b>	<b>(0.5)</b>	<b>(0.3)</b>

#### 4.4.3 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.

The Company monitors its 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 contribute to the Group breaching its borrowing limits or covenants (where applicable) on any of its borrowing facilities. For further details see Note 4.7.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the carrying values and undiscounted contractual cash flows.

	Notes	Carrying value £m	Contractual cash flows £m	1 year or less £m	1-2 years £m	2-5 years £m	More than 5 years £m
<b>Financial liabilities</b>							
Trade payables	3.5.4	(59.8)	(59.8)	(59.8)	-	-	-
Accruals	3.5.4	(24.6)	(24.6)	(24.6)	-	-	-
Amounts due to group undertakings	3.5.4	(147.3)	(147.3)	(147.3)	-	-	-
Borrowings	4.1.2	(49.3)	(56.7)	(6.9)	(8.5)	(41.3)	-
Obligations under finance leases	4.1.3	(50.9)	(57.7)	(22.2)	(13.1)	(16.0)	(6.4)
Derivative liabilities	4.3.1	(0.4)	(0.4)	(0.4)	-	-	-
<b>2 December 2012</b>		<b>(332.3)</b>	<b>(346.5)</b>	<b>(261.2)</b>	<b>(21.6)</b>	<b>(57.3)</b>	<b>(6.4)</b>

	Notes	Carrying value £m	Contractual cash flows £m	1 year or less £m	1-2 years £m	2-5 years £m	More than 5 years £m
<b>Financial liabilities</b>							
Trade payables	3.5.4	(53.2)	(53.2)	(53.2)	-	-	-
Accruals	3.5.4	(41.4)	(41.4)	(41.4)	-	-	-
Amounts due to group undertakings	3.5.4	(149.6)	(149.6)	(149.6)	-	-	-
Borrowings	4.1.2	(9.5)	(10.3)	(3.7)	(4.3)	(2.3)	-
Obligations under finance leases	4.1.3	(151.9)	(185.7)	(31.9)	(26.8)	(59.4)	(67.6)
Derivative liabilities	4.3.1	(0.2)	(0.2)	(0.2)	-	-	-
<b>1 December 2013</b>		<b>(405.8)</b>	<b>(440.4)</b>	<b>(280.0)</b>	<b>(31.1)</b>	<b>(61.7)</b>	<b>(67.6)</b>

#### 4.4.4 Market risk

##### Currency risk

The Company has foreign currency exposure in relation to its foreign currency trade payables, amounts due from group undertakings denominated in foreign currency and a portion of its cash and cash equivalents.

Foreign currency trade payables arise principally on purchases of plant and equipment. 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 to hedge future purchases of plant and equipment in Euro.

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

	1 December 2013 £m	2 December 2012 £m
Cash and cash equivalents - Euro	0.6	7.8
Trade payables at period end - Euro	(3.4)	(10.6)
Amounts due from group undertaking - EUR	0.7	0.7
Amounts due from group undertaking - PLN	0.5	0.1
Derivative liability (forward foreign exchange contracts) - Euro	(0.2)	(0.1)
	<b>(1.8)</b>	<b>(2.1)</b>



The table below shows the Company's sensitivity to changes in foreign exchange rates on its Euro-related financial instruments:

	1 December 2013		2 December 2012	
	Increase/ (decrease) in income £m	Increase/ (decrease) in equity £m	Increase/ (decrease) in income £m	Increase/ (decrease) in equity £m
10% appreciation of the euro	(0.4)	1.8	(0.2)	1.8
10% depreciation of the euro	0.4	(1.8)	0.2	(1.8)

A movement of the euro, as indicated, against sterling at 1 December 2013 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 floating rate interest bearing borrowings 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. Interest rate risk on significant floating rate interest bearing borrowings is managed using interest rate swaps.

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

	1 December 2013 £m	2 December 2012 £m
<b>Fixed rate instruments</b>		
Financial assets	8.6	78.8
Financial liabilities	(153.8)	(53.3)
<b>Variable rate instruments</b>		
Financial assets	-	5.1
Financial liabilities	(7.6)	(52.2)

#### Sensitivity analysis

An increase of 100 basis points (1.0%) in interest rates would increase equity and profit or loss by the amounts shown below. A rate of 100 basis points was deemed appropriate, considering the current short-term interest rate outlook. The calculation applies the increase to average floating rate interest bearing borrowings and cash and cash equivalents existing during the period. This analysis assumes that all other variables remain constant and considers the effect on financial instruments with variable interest rates.

	1 December 2013 £m	2 December 2012 £m
<b>Equity</b>		
Gain	-	0.2
<b>Income</b>		
Loss	(0.2)	(0.1)

#### 4.4.5 Financial instruments by category

The Company has categorised its financial instruments as follows:

		Available- for-sale	Loans and receivables	Financial liabilities at amortised cost	Financial liabilities/assets at fair value through profit and loss	Total
	Notes	£m	£m	£m	£m	£m
<b>As at 2 December 2012</b>						
<b>Financial assets as per the balance sheet</b>						
Cash and cash equivalents	3.5.3	-	16.0	-	-	16.0
Trade and other receivables (excluding prepayments)	3.5.2	-	85.6	-	-	85.6
Available-for-sale financial asset	3.3.1	0.4	-	-	-	0.4
Derivative asset	4.3.1	-	-	-	0.2	0.2
<b>Total</b>		<b>0.4</b>	<b>101.6</b>	<b>-</b>	<b>0.2</b>	<b>102.2</b>
<b>Financial liabilities as per the balance sheet</b>						
Trade payables	3.5.4	-	-	59.8	-	59.8
Accruals	3.5.4	-	-	24.6	-	24.6
Amounts due to group undertakings	3.5.4	-	-	147.3	-	147.3
Borrowings	4.1.2	-	-	49.3	-	49.3
Obligations under finance leases	4.1.3	-	-	50.9	-	50.9
Derivative liability	4.3.1	-	-	-	0.4	0.4
<b>Total</b>		<b>-</b>	<b>-</b>	<b>331.9</b>	<b>0.4</b>	<b>332.3</b>
<b>As at 1 December 2013</b>						
<b>Financial assets as per the balance sheet</b>						
Cash and cash equivalents	3.5.3	-	8.6	-	-	8.6
Trade and other receivables (excluding prepayments)	3.5.2	-	102.2	-	-	102.2
Available-for-sale financial asset	3.3.1	0.4	-	-	-	0.4
Derivative asset	4.3.1	-	-	-	-	-
<b>Total</b>		<b>0.4</b>	<b>110.8</b>	<b>-</b>	<b>-</b>	<b>111.2</b>
<b>Financial liabilities as per the balance sheet</b>						
Trade payables	3.5.4	-	-	53.2	-	53.2
Accruals	3.5.4	-	-	41.4	-	41.4
Amounts due to group undertakings	3.5.4	-	-	149.6	-	149.6
Borrowings	4.1.2	-	-	9.5	-	9.5
Obligations under finance leases	4.1.3	-	-	151.9	-	151.9
Derivative liability	4.3.1	-	-	-	0.2	0.2
<b>Total</b>		<b>-</b>	<b>-</b>	<b>405.6</b>	<b>0.2</b>	<b>405.8</b>

#### 4.5.1 Share capital and reserves

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

	Ordinary shares	Share Capital	Share premium
	Number	£m	£m
<b>At 28 November 2011</b>	100	-	360.3
<b>At 2 December 2012</b>	100	-	360.3
<b>At 1 December 2013</b>	100	-	360.3

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

		Capital contributions reserve	Fair value reserve	Total other reserves
	Notes	£m	£m	£m
<b>At 27 November 2011</b>		1.9	0.1	2.0
Capital contributions - Group share-based payment expense	2.1.4	0.9	-	0.9
Fair value movement on derivative financial instruments	4.5.1(a)	-	(0.5)	(0.5)
<b>At 2 December 2012</b>		2.8	(0.4)	2.4
Capital contributions - Group share-based payment expense	2.1.4	3.3	-	3.3
Fair value movement on derivative financial instruments	4.5.1(a)	-	0.6	0.6
<b>At 2 December 2013</b>		6.1	0.2	6.3

#### (a) Other reserves

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

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

The fair value reserve comprises gains and losses on movements in the Company's cash flow hedges, which consist of foreign currency and interest rate hedges.

#### 4.6 Share-based payments

For more information on the Group's share schemes, see Note 4.7 to the consolidated financial statements, which can be found at [results13.ocadogroup.com](http://results13.ocadogroup.com).

#### 4.7 Capital management

The Board's objectives and policies for the Company are consistent with those of the Group.

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

The Board closely manages trading capital, defined as net assets plus net debt. Net debt is calculated as total debt (obligations under finance leases and borrowings as shown in the balance sheet), less cash and cash equivalents. The Company's net assets at the end of the period were £14.5 million (2012: £20.8 million).

The main areas of capital management revolve around working capital management and compliance with externally imposed financial covenants on the Group. Throughout the period, the Group has complied with all covenants imposed by lenders.

The components of working capital management include monitoring inventory turn, age of inventory, age of receivables, receivables days, payables days, balance sheet reforecasting, period projected profit/loss, weekly cash flow forecasts and daily cash balances. Major investment decisions are based on reviewing the expected future cash flows and all major capital expenditure requires approval by the Board. There were no changes in the Company's approach to capital management during the period.

Given the Company's commitment to expand the business and the investment required to complete CFC2, the declaration and payment of a dividend is not part of the short-term capital management strategy of the Company.

At the balance sheet date, the Company's undrawn facilities and cash and cash equivalents are as follows:

	Notes	1 December 2013 £m	2 December 2012 £m
Total facilities available <sup>†</sup>		173.4	141.9
Facilities drawn down		(161.5)	(102.2)
Undrawn facilities at end of period		11.9	39.7
Cash and cash equivalents gross of drawn overdraft facility	3.5.3	8.6	16.0
		20.5	55.7

<sup>†</sup> During the period, the Company repaid and cancelled its £100 million credit facility. Facilities drawn down also include leaseback of MHE relating to CFC2 to MHE JV Co.

## Section 5 – Other notes

### 5.1 Subsidiaries

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

### 5.2 Commitments

#### Capital commitments

Contracts placed for future capital expenditure but not provided for in the financial statements are for property, plant and equipment and at period end amounted to £27.8 million (2012: £31.7 million).

Of the total capital expenditure committed at the current period end, £22.2 million (2012: £28.8 million) relates to phase 2 of CFC2. The remainder relates to CFC1 and fleet expansion.

#### 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 1 December 2013, the ageing profile of future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	1 December 2013 £m	2 December 2012 £m
Due within one year	10.0	4.1
Due after one year but less than five years	32.1	12.0
Due after five years	115.8	37.6
Total future minimum lease payments	157.9	53.7

### 5.3 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 will be either covered by its insurances or will not be material in the context of the Company's financial position.

## 5.4 Related party transactions

### Key management personnel

Only the Executive and Non-Executive Directors are deemed to be key management personnel. It is the Board which has responsibility for planning, directing and controlling the activities of the Company. Remuneration of Directors and Directors' is disclosed in Note 2.1.4.

Other related party transactions with key management personnel made during the period related to the purchase of professional services and amounted to £11,000 (2012: £8,000). 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 personnel owed the Company £27,000 (2012: £27,000). The current and prior period amount arose in periods before relevant directorships were obtained.

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

### Investment

The following transactions were carried out with Paneltex Limited, a company in which the Company holds a 25% interest. Further information on the Company's relationship with Paneltex Limited is provided in Note 3.3.1.

	1 December 2013 £m	2 December 2012 £m
<b>Purchase of goods</b>		
- Plant and machinery	0.1	0.1
- Consumables	0.9	0.2
<b>Total purchase of goods</b>	<b>1.0</b>	<b>0.3</b>

Indirect transactions, consisting of the purchase of plant and machinery through some of the Company's finance lease counterparties, were carried out with Paneltex Limited to the value of £4.0 million (2012: £3.0 million).

At period end, the Company owed Paneltex £33,000 (2012: £23,000).

### Group undertakings

The Company enters into loans with group undertakings. Interest income of £0.1 million (2012: £2.1 million) was earned on these loans at market related interest rates during the period.

	1 December 2013 £m	2 December 2012 £m
<b>Transactions with group undertakings</b>		
Capital contributions from parent:		
- Group share-based payment charge	3.3	0.9
Increase in loans made to group undertakings	0.6	5.1
Increase in amounts due to subsidiary undertakings	2.3	44.9
<b>Year-end balances arising from transactions with group undertakings</b>		
Receivables:		
Loans and receivables due from group undertakings	61.7	61.1
Payables:		
Loans and payables due to group undertakings	149.6	147.3

### Joint Venture

The following transactions were carried out with MHE JV Co, a joint venture company in which the Group holds a 50% interest:

	1 December 2013
	£m
<b>Sale and leaseback transaction</b>	
Sale of assets to MHE JVCo Limited	
Leaseback of assets from MHE JVCo Limited	112.1
Finance lease payment	0.3

Included within trade and other receivables is a balance of £12.3 million owed by MHE JV Co.

Included within trade and other payables is a balance of £8.4 million owed to MHE JV Co.

Included within obligations under finance leases is a balance of £112.7 million owed to MHE JV Co.

No other transactions that require disclosure under IAS 24 have occurred during the current financial period.

### 5.5 Post balance sheet events

There have been no significant events, outside the ordinary course of business, affecting the Company since 1 December 2013.

### 5.6 Ultimate parent undertaking and controlling party

The immediate and ultimate parent undertaking and controlling party is Ocado Group plc, a company incorporated in the United Kingdom.

Ocado Group plc is the parent undertaking of the largest group of undertakings to consolidate these financial statements at 1 December 2013.

The consolidated financial statements of Ocado Group plc can be obtained from Titan Court, 3 Bishops Square, Hatfield Business Park, Hatfield, Hertfordshire, AL10 9NE.