IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QUALIFIED INSTITUTIONAL BUYERS WITHIN THE MEANING OF RULE 144A UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR (2) NON-U.S. PERSONS OUTSIDE OF THE UNITED STATES IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT (AND, IF INVESTORS ARE RESIDENT IN A MEMBER STATE OF THE EUROPEAN ECONOMIC AREA, A QUALIFIED INVESTOR).

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the attached Offering Memorandum, and you are therefore advised to read this disclaimer page carefully before reading, accessing or making any other use of the attached Offering Memorandum. In accessing the attached Offering Memorandum, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE FOLLOWING OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORIZED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE NOTES DESCRIBED THEREIN.

Confirmation of your representation: In order to be eligible to view the attached Offering Memorandum or make an investment decision with respect to the securities, you must: (i) not be a U.S. person (as defined in Regulation S under the Securities Act), and be outside the United States; or (ii) be a qualified institutional buyer (as defined in Rule 144A under the Securities Act), provided that investors resident in a Member State of the European Economic Area must be a qualified investor (within the meaning of Article 2(1)(e) of Directive 2003/71/EC and any relevant implementing measure in each Member State of the European Economic Area). You have been sent the attached Offering Memorandum on the basis that you have confirmed to the initial purchasers set forth in the attached Offering Memorandum (the "Initial Purchasers"), being the sender or senders of the attached, that either: (A)(i) you and any customers you represent are not U.S. persons; and (ii) the e-mail address to which the attached Offering Memorandum has been delivered is not located in the United States, its territories and possessions, any state of the United States or the District of Columbia; "possessions" include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands; or (B) you and any customers you represent are qualified institutional buyers and, in either case, that you consent to delivery by electronic transmission.

The attached Offering Memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and, consequently, none of the Initial Purchasers, any person who controls the Initial Purchaser, Ocado Group plc (the "Issuer") or any of its subsidiaries, nor any director, officer, employers, employee or agent of theirs, or affiliate of any such person, accepts any liability or responsibility whatsoever in respect of any difference between the attached Offering Memorandum distributed to you in electronic format and the hard copy version available to you on request from the Initial Purchasers.

You are reminded that the attached Offering Memorandum has been delivered to you on the basis that you are a person into whose possession the attached Offering Memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorized to deliver the attached Offering Memorandum to any other person. You may not transmit the attached Offering Memorandum (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the consent of the Initial Purchasers. If you receive this document by e-mail, you should not reply by e-mail to this announcement. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected. If you receive this document by e-mail, your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

The materials relating to the Offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the Offering be made by a licensed broker or dealer and the Initial Purchasers or any affiliate of the Initial Purchasers is a licensed broker or dealer in that jurisdiction, the Offering shall be deemed to be made by the Initial Purchasers or such affiliate on behalf of the Issuers in such jurisdiction.

Restrictions: The attached Offering Memorandum is being furnished in connection with an offering exempt from registration under the Securities Act. Nothing in this electronic transmission constitutes an offer of securities for sale in the United States or to any U.S. person.

Any securities to be issued will not be registered under the Securities Act or the securities laws of any other jurisdiction and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as such terms are defined in Regulation S under the Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Notwithstanding the foregoing, prior to the expiration of a 40-day distribution compliance period (as defined under Regulation S under the Securities Act) commencing on the issue date, the securities may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons, except pursuant to another exemption from the registration requirements of the Securities Act.

The attached Offering Memorandum is for distribution only to, and is directed solely at, persons who (i) are outside the United Kingdom, (ii) are investment professionals, as such term is defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Financial Promotion Order"), (iii) are persons falling within Article 49(2)(a) to (d) of the Financial Promotion Order, or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 in connection with the issue or sale of any Notes may otherwise be lawfully communicated or caused to be communicated (all such persons together being referred to as "relevant persons"). The attached Offering Memorandum is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which the attached Offering Memorandum relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on the attached Offering Memorandum or any of its contents.

OFFERING MEMORANDUM

NOT FOR DISTRIBUTION
IN THE UNITED STATES

Ocado Group plc

£250,000,000 4.00% Senior Secured Notes due 2024

Ocado Group plc, a listed company incorporated under the laws of England and Wales (the "Issuer"), is offering (the "Offering") £250,000,000 aggregate principal amount of its 4.00% Senior Secured Notes due 2024 (the "Notes"). Interest on the Notes will be payable semi-annually in arrears on each 15 June and 15 December commencing on 15 December 2017. The Notes will mature on 15 June 2024.

The Issuer may redeem the Notes in whole or in part at any time on or after 15 June 2020, in each case, at the redemption prices set out in this Offering Memorandum (the "Offering Memorandum"). Prior to 15 June 2020, the Issuer will be entitled to redeem, at its option, all or a portion of the Notes at a redemption price equal to 100% of the principal amount of the Notes, plus accrued and unpaid interest and additional amounts, if any, to the redemption date, plus a "make-whole" premium, as described in this Offering Memorandum. Prior to 15 June 2020, the Issuer may, at its option, and on one or more occasions, also redeem up to 40% of the original aggregate principal amount of the Notes with the net proceeds from certain equity offerings. Prior to 15 June 2020, the Issuer may redeem during each twelve-month period commencing on the Issue Date up to 10% of the aggregate principal amount of the Notes originally issued (including the aggregate principal amount of any Additional Notes) at a redemption price equal to 103% of the principal amount thereof, plus accrued and unpaid interest to the applicable redemption date. Additionally, the Issuer may redeem the Notes in whole, but not in part, at a price equal to their principal amount plus accrued and unpaid interest and additional amounts, if any, upon the occurrence of certain changes in applicable tax law. Upon the occurrence of certain events constituting a change of control, the Issuer may be required to repurchase all or any portion of the Notes at 101% of the principal amount thereof, plus accrued and unpaid interest and additional amounts, if any, to the date of such repurchase. See "*Description of the Notes—Optional Redemption*".

The Notes are senior secured obligations of the Issuer, and will initially be guaranteed (the "Guarantees" and, each, a "Guarantee") on a senior basis by Ocado Holdings Limited, Ocado Retail Limited, Ocado Operating Limited, Ocado Central Services Limited, Ocado Innovation Limited, Ocado International Holdings Limited, Marie Claire Beauty Limited and Speciality Stores Limited (together, the "Guarantors"), and secured by certain share charges, which constitute the Collateral (as defined herein). The Notes and Guarantees will rank *pari passu* in right of payment with any of the Issuer's and Guarantors' existing and future debt that is not subordinated in right of payment to the Notes, including debt incurred under the Amended and Restated Senior Credit Facility (as defined herein) and will rank senior in right of payment to any existing and future debt that is subordinated in right of payment. The Notes and Guarantees will be effectively subordinated to any of the Issuer's and Guarantors' existing and future debt or other obligations that are secured by property and assets that do not secure the Notes, to the extent of the value of such property and assets, including capitalised leases on vehicles, machinery and other property and assets and structurally subordinated to debt or other obligations of non-guarantor subsidiaries. The Collateral that will secure the Notes and the Guarantees will also secure liabilities under the Amended and Restated Senior Credit Facility and may secure certain hedging obligations and certain other future debt (the "Senior Obligations") on a *pari passu* basis. The validity and enforceability of the Guarantees and the security interests and the liability of each Guarantor will be subject to the limitations described in "*Certain Insolvency and Enforceability Considerations*". The Collateral and the Guarantees may be released in certain circumstances.

This Offering Memorandum includes information on the terms of the Notes and the Guarantees, including redemption and repurchase prices, security, covenants and transfer restrictions.

There is currently no public market for the Notes. Application has been made to the Irish Stock Exchange for the approval of this document as Listing Particulars. Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on the Global Exchange Market which is the exchange regulated market of the Irish Stock Exchange. The Global Exchange Market is not a regulated market for the purposes of Directive 2004/39/EC. There is no assurance that the Notes will be listed and admitted to trading on the Global Exchange Market of the Irish Stock Exchange. Settlement of the Notes is not conditional on such listing or admission.

Investing in the Notes involves risks that are described under the caption "*Risk Factors*" beginning on page 28 of this Offering Memorandum.

Price for the Notes:100.0% plus accrued interest from the Issue Date.

The Notes and the Guarantees have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or the securities laws of any other jurisdiction and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Notes are being offered and sold only to qualified institutional buyers in accordance with Rule 144A under the Securities Act and to non-U.S. persons outside the United States in accordance with Regulation S under the Securities Act. For further details about eligible offerees and resale restrictions, please see "*Notice to Investors*."

The Issuer expects that delivery of the Notes will be made to investors in book-entry form through Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking, société anonyme, ("Clearstream") on or about 19 June 2017. Interests in each Global Note will be exchangeable for the relevant Definitive Notes only in certain limited circumstances. See "*Book-Entry; Delivery and Form*".

Joint Global Coordinators

Barclays **HSBC**

Joint Bookrunners

Goldman Sachs International **NatWest Markets** **Rabobank**

The date of this Offering Memorandum is 19 June 2017.

You should rely only on the information contained in this Offering Memorandum. Neither the Issuer, the Guarantors, nor any of Barclays Bank plc, HSBC Bank plc, Goldman Sachs International, The Royal Bank of Scotland plc (trading as NatWest Markets) or Coöperatieve Rabobank U.A. has authorized anyone to provide you with information that is different from the information contained herein. If given, any such information should not be relied upon. You should not assume that the information contained in this Offering Memorandum is accurate as of any date other than the date on the front of this Offering Memorandum.

Neither the Issuer nor any of the Initial Purchasers is making an offer of the Notes in any jurisdiction where the Offering is not permitted.

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The Issuer is a listed company incorporated in England and Wales under the Companies Act 2006. The Issuer was incorporated on 9 December 2009 as a private company, re-registered as a public limited company ("plc") on 23 June 2010 and is registered under company number 07098618. The Issuer's registered office is located at Buildings One & Two Trident Place, Mosquito Way, Hatfield, Hertfordshire AL10 9UL, England.

The Issuer's internet address is www.ocadogroup.com. Information posted on the Issuer's website and those of its affiliates and subsidiaries does not constitute a part of this Offering Memorandum.

Unless the context otherwise requires, references in this Offering Memorandum to "we", "our", "us" and the "Group" refer collectively to the Issuer and its direct and indirect subsidiaries. Certain definitions and technical terms used in this Offering Memorandum are defined in the section entitled "*Glossary and Technical Terms*".

We are relying on an exemption from registration under the Securities Act for offers and sales of securities that do not involve a public offering. By purchasing Notes, you will be deemed to have made the acknowledgments, representations, warranties and agreements described under "*Notice to Investors.*" in this Offering Memorandum. You should understand that you may be required to bear the financial risks of your investment for an indefinite period of time.

We have prepared this Offering Memorandum solely for use in connection with the offer of the Notes to qualified institutional buyers under Rule 144A under the Securities Act and to non-U.S. persons (within the meaning of Regulation S under the Securities Act) outside the United States under Regulation S under the Securities Act. We have not authorised its use for any other purpose. This Offering Memorandum may not be copied or reproduced in whole or in part. You may not distribute this Offering Memorandum to any person, other than a person retained to advise you in connection with the purchase of the Notes. Delivery of this Offering Memorandum to anyone other than such prospective investors is unauthorised, and any reproduction of this Offering Memorandum, in whole or in part, is prohibited. By accepting delivery of this Offering Memorandum, you agree to these restrictions. Please see "*Notice to Investors.*"

This Offering Memorandum is based on information provided by us and by other sources that we believe is reliable. We cannot assure you that information included herein is accurate or complete. No representation or warranty, express or implied, is made by the Initial Purchasers as to the accuracy or completeness of any information set forth in this Offering Memorandum, and nothing contained in this Offering Memorandum is or shall be relied upon as a promise or representation, whether as to the past or the future. This Offering Memorandum summarises certain documents and other information and we refer you to them for a more complete understanding of the discussions in this Offering Memorandum. We will make copies of certain documents available to you upon request. In making an investment decision, you must rely on your own examination of our Group, the terms of the Offering and the Notes, including the merits and risks involved.

We are not making any representation to any purchaser of the Notes regarding the legality of an investment in the Notes by such purchaser under any legal investment or similar laws or regulations. You should not consider any information in this Offering Memorandum to be legal, business or tax advice. You should consult your own attorney, business advisor and tax advisor for legal, business and tax advice regarding an investment in the Notes.

You should contact the Initial Purchasers with any questions about this offering or if you require additional information to verify the information contained in this Offering Memorandum.

We reserve the right to withdraw this offering of the Notes at any time and we and the Initial Purchasers reserve the right to reject any commitment to subscribe for the Notes in whole or in part and to allot to any prospective purchaser less than the full amount of Notes sought by such purchaser. The Initial Purchasers and certain related entities may acquire for their own account a portion of the Notes. Please see "*Plan of Distribution*."

You must comply with all applicable laws and regulations in force in any applicable jurisdiction and you must obtain any consent, approval or permission required by you for the purchase, offer or sale of the Notes under the laws and regulations in force in the jurisdiction to which you are subject or in which you make such purchase, offer or sale, and neither we nor the Initial Purchasers will have any responsibility therefor.

This Offering Memorandum is not an offer to sell, or a solicitation of an offer to buy, any Notes by any person in any jurisdiction in which it is unlawful for such person to make such an offering or solicitation. No action has been, or will be, taken to permit a public offering in any jurisdiction where action would be required for that purpose.

Neither the U.S. Securities and Exchange Commission ("SEC"), or any state securities commission nor any other regulatory authority has approved or disapproved these securities nor have any of the foregoing authorities passed upon or endorsed the merits of this offering or the accuracy or adequacy of this Offering Memorandum. Any representation to the contrary is a criminal offence.

We accept responsibility for the information contained in this Offering Memorandum. To the best of our knowledge and having taken all reasonable care the information contained in this Offering Memorandum is in accordance with the facts and does not omit anything likely to affect the import of this Offering Memorandum.

The information contained under the heading "*Exchange Rate Information*" includes extracts from information and data publicly released by official and other sources. We have accurately reproduced such exchange rate information and the information and date from third-party sources under the heading "*Book-Entry; Delivery and Form*" and, as far as we are aware and able to ascertain third-party sources, no facts have been omitted which would render the reproduced information inaccurate or misleading. While we accept such responsibility for accurately summarising such information, we accept no further responsibility in respect of such information. The information set out in relation to sections of this Offering Memorandum describing clearing and settlement arrangements, including the section entitled "*Book-Entry; Delivery and Form*," is subject to change in or reinterpretation of the rules, regulations and procedures of Euroclear or Clearstream currently in effect. While we accept responsibility for accurately summarising the information concerning Euroclear and Clearstream, we accept no further responsibility in respect of such information.

This document constitutes the listing particulars (the "Listing Particulars") in respect of the admission of the Notes to the Official List and to trading on the Global Exchange Market of the Exchange.

We cannot guarantee that its application for the admission of the Notes to trading on the Global Exchange Market and to listing of the Notes on the Official List of the Exchange, will be approved at any time, and settlement of the Notes is not conditioned on obtaining this listing.

The Notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and applicable securities laws of any other jurisdiction pursuant to registration or exemption therefrom. Prospective purchasers should be aware that they may be required to bear the financial risks of this investment for an indefinite period of time. See "*Notice to Investors.*"

STABILISATION

IN CONNECTION WITH THIS OFFERING, HSBC BANK PLC (THE "STABILISING MANAGER") (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILISATION MAY NOT NECESSARILY OCCUR. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE FINAL TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT MUST END NO LATER THAN THE EARLIER OF 30 CALENDAR DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 CALENDAR DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILISATION ACTION OR OVER ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR PERSON ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND REGULATIONS.

NOTICE TO UNITED KINGDOM INVESTORS

This document has not been approved by an authorised person for the purposes of section 21 of the Financial Services and Markets Act 2000 (as amended) ("FSMA"). Accordingly, this document is only for distribution to and directed at: (i) in the United Kingdom, persons having professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) (ii) persons who are outside the United Kingdom; and (iii) any other person to whom it can otherwise be lawfully distributed (all such persons together being referred to as "Relevant Persons"). Any investment or investment activity to which this document relates is available only to and will be engaged in only with Relevant Persons. Persons who are not Relevant Persons should not take any action based upon this document and should not rely on it.

NOTICE TO U.S. INVESTORS

Each purchaser of the Notes will be deemed to have made the representations, warranties and acknowledgments that are described in this Offering Memorandum under "*Notice to Investors*" in this Offering Memorandum.

The Notes and the Guarantees have not been and will not be registered under the Securities Act or the securities laws of any state of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Notes will be sold outside the United States to non-U.S. persons in offshore transactions pursuant to Regulation S of the Securities Act and within the United States to qualified institutional buyers pursuant to Rule 144A of the Securities Act. The Notes are subject to certain restrictions on transfer. Prospective purchasers are hereby notified that the seller of any Note may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A thereunder. For a description of certain further restrictions on resale or transfer of the Notes, please see "*Notice to Investors.*"

THE NOTES MAY NOT BE OFFERED TO THE PUBLIC WITHIN ANY JURISDICTION. BY ACCEPTING DELIVERY OF THIS OFFERING MEMORANDUM, YOU AGREE NOT TO OFFER, SELL, RESELL, TRANSFER OR DELIVER, DIRECTLY OR INDIRECTLY, ANY NOTES TO THE PUBLIC.

NOTICE TO EEA INVESTORS

This Offering Memorandum is not a prospectus and is being distributed to a limited number of recipients for the sole purpose of assisting such recipients in determining whether to proceed with a further investigation of the purchase of or, subscription for, the Notes. This Offering Memorandum has been prepared on the basis that all offers of the Notes will be made pursuant to an exemption under the Prospectus Directive, including Article 3 thereof, as implemented in Member States of the European Economic Area ("EEA"), from the requirement to produce a prospectus for offers of securities. Accordingly, any person making or intending to make any offer within the EEA of Notes, which are the subject of the placement contemplated in this Offering Memorandum, should only do so in circumstances in which no obligation arises for the Issuer or the Initial Purchasers to produce a prospectus for such offer. Neither the Issuer nor the Initial Purchasers have authorised, nor do they authorise, the making of any offer of the Notes through any financial intermediary, other than offers made by the Initial Purchasers, which constitute the final placement of the Notes contemplated in this Offering Memorandum.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), each Initial Purchaser has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of the Notes to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in the Relevant Member State at any time:

(a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) to 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant dealer or dealers nominated by the Issuer for any such offer; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive;

provided that no such offer of the Notes shall result in a requirement for the publication by the Issuer or the Initial Purchasers of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this restriction, the expression an "offer of notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression "Prospectus Directive" means Directive 2003/71/EC (as amended including by Directive 2010/73/EU) and includes any relevant implementing measure in the relevant Member State.

Each subscriber for or purchaser of the Notes in the Offering located within a member state of the EEA will be deemed to have represented, acknowledged and agreed that it is a "qualified investor" within the meaning of Article 2(1)(e) of the Prospectus Directive. The Issuer, the Initial Purchasers and their affiliates, and others will rely upon the accuracy of the foregoing representation, acknowledgement and agreement. Notwithstanding the above, a person who is not a qualified investor and who has notified the Initial Purchasers of such fact in writing may, with the consent of the Initial Purchasers, be permitted to subscribe for or purchase the Notes in the Offering.

Norway. This Offering Memorandum has not been and will not be filed with or approved by the Norwegian Financial Supervisory Authority, the Oslo Stock Exchange or any other regulatory authority in Norway. The Notes have not been offered or sold and may not be offered, sold or delivered, directly or indirectly, in Norway, unless in compliance with Chapter 7 of the Norwegian Securities Trading Act 2007 and secondary regulations issued pursuant thereto, as amended from time to time. Accordingly, this Offering Memorandum may not be made available nor may the Notes otherwise be marketed and offered for sale in Norway other than in circumstances that are deemed not to be a marketing of an offer to the public in Norway.

Switzerland. The offering of the Notes is not a public offering in Switzerland. This Offering Memorandum, as well as any other material relating to the Notes which are the subject of the Offering contemplated by this Offering Memorandum, do not constitute an issue prospectus pursuant to article 652a and/or article 1156 of the Swiss Code of Obligations and may not comply with the Directive for Notes of Foreign Borrowers of the Swiss Bankers Association. The Notes will not be listed on the SIX Swiss Exchange Ltd., and therefore, the documents relating to the Notes, including, but not limited to, this Offering Memorandum, do not claim to comply with the disclosure standards of the Swiss Code of Obligations and the listing rules of the SIX Swiss Exchange Ltd. and corresponding prospectus schemes annexed to the listing rules of the SIX Swiss Exchange Ltd. The Notes are being offered in Switzerland by way of a private placement (i.e., to a small number of selected investors only), without any public advertisement and only to investors who do not purchase the Notes with the intention to distribute them to the public. The investors will be individually approached directly from time to time. This Offering Memorandum, as well as any other material relating to the Notes, is personal and confidential and does not constitute an offer to any other person. This Offering Memorandum, as well as any other material relating to the Notes, may only be used by those investors to whom it has been handed out in connection with the Offering described herein and may neither directly nor indirectly be distributed or made available to other persons without the Issuer's express consent. This Offering Memorandum, as well as any other material relating to the Notes, may not be used in connection with any other offer and shall in particular not be copied and/or distributed to the public in (or from) Switzerland.

THIS OFFERING MEMORANDUM CONTAINS IMPORTANT INFORMATION WHICH YOU SHOULD READ BEFORE YOU MAKE ANY DECISION WITH RESPECT TO AN INVESTMENT IN THE NOTES.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Offering Memorandum are not historical facts and are forward-looking. Forward-looking statements appear in various locations, including, without limitation, in the sections entitled "*Summary*," "*Risk Factors*," "*Management's Discussion and Analysis of Financial Condition and Results of Operations*," "*Industry Overview*" and "*Business.*" We may from time to time make written or oral forward-looking statements in reports to shareholders and in other communications. In addition, this Offering Memorandum includes forward-looking information that has been extracted from third-party sources. Forward-looking statements include statements concerning our plans, expectations, projections, objectives, targets, goals, strategies, future events, future operating revenues or performance, capital expenditures, return on capital invested, operating margin, financing needs, plans or intentions relating to acquisitions, our competitive strengths and weaknesses, our business strategy, and the trends we anticipate in the industries and the political and legal environments in which we operate and other information that is not historical information.

Words such as "believe," "anticipate," "estimate," "target," "potential," "expect," "intend," "predict," "project," "could," "should," "may," "will," "plan," "aim," "seek" and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements.

The forward-looking statements contained in this Offering Memorandum are largely based on our expectations, which reflect estimates and assumptions made by our management. These estimates and assumptions reflect our best judgment based on currently known market conditions and other factors, some of which are discussed below. In addition, management's assumptions about future events may prove to be inaccurate. We caution all readers that the forward-looking statements contained in this Offering Memorandum are not guarantees of future performance, and we cannot assure any reader that such statements will be realised or the forward-looking events and circumstances will occur.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, many of which are beyond our control. These risks, uncertainties and other factors include, among other things, those listed in the section entitled "*Risk Factors*," as well as those included elsewhere in this Offering Memorandum. You should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- intense competition and potential failure to maintain a competitive pricing position or compete effectively with traditional and online retailers of grocery products and competitors of our Solutions Business;
- dependency on the U.K. and global economic conditions;
- political, operational and economic uncertainty arising from Brexit;
- potential product recalls and product liability claims in complying with health and safety laws and regulations;
- incurrence of additional costs or delays in complying with new regulations applicable to the sale of food products or to the development and operation of our Solutions Business;
- increased environmental costs;
- increased costs in relation to regulated or restricted products and the regulation of our other activities, including our Solutions Business;
- a decrease in demand for our products in the event of health concerns and pandemics;
- a potential increase in governmental regulation of the internet and/or online retail;
- the failure of the online grocery industry in the U.K. to sustain or improve on current levels of demand and our potential failure to develop our retail proposition to appeal to a broader customer base and sustain our growth rates;
- operating in a retail market that is still developing and evolving;
- our failure to promote new product ranges and/or entry into new business areas;
- our failure to commercialise our Solutions Business technology in the U.K. and/or overseas;

- our inability to keep pace with changes to consumer preferences;
- our failure to protect our image, brand and reputation;
- our inability to increase our net sales per active retail customer and continue to grow profitably;
- the seasonality of our retail business causing operational activity to fluctuate and placing increased pressure on our operations at peak times;
- dependency on three CFCs located in Hatfield, Dordon and Andover for our grocery retail business and on a single GMDC located in Welwyn for our general merchandise business;
- our failure to replicate our business systems to new CFCs on time and within budget;
- reliance on our Spoke sites and our delivery fleet for last mile transportation, entirely by road, of products to our customers;
- limitations on the capacity of the current CFCs and Spokes;
- payments-related risks;
- a lack of adequate protection for our intellectual property rights or accusations of infringing the intellectual property rights of third parties;
- our failure to keep pace with new technological developments;
- our dependency on relations with other third parties;
- our growth placing significant demands on our management and infrastructure;
- our failure to expand through joint ventures, partnerships or other collaborative activities, or through merger and acquisition activity;
- reliance on our staff;
- changes in taxation rates or laws, tax liabilities or tax accounting rules;
- a continuing increase in the minimum wage and changes to wage regulations;
- changes which may affect our ability to use considerable carried forward tax losses;
- increased levels of debt on our balance sheet resulting from future changes in accounting standards;
- restrictions to our ability to exploit our proprietary software and IT systems and exposure to certain risks resulting from our use of open source software;
- disruption in the efficiency and functioning of our operations resulting from our IT systems' dependency on each other and a failure in any one;
- online security breaches including hacking and vandalism;
- privacy or data protection failures;
- reliance on the Waitrose brand and Waitrose own-label products and our long-term Sourcing Agreement which expires in 2020;
- failure to renew the Sourcing Agreement following its ultimate expiry;
- restrictions on the growth of our Ocado own-label range and independent sourcing capability and negotiation know-how resulting from the minimum sourcing provisions of the Sourcing Agreement;
- the potential early termination of the Sourcing Agreement by Waitrose/John Lewis following a change of control of the Group (and in certain other circumstances);
- our inability to replace the Sourcing Agreement on acceptable terms or at all if Waitrose fails to source products for us;
- our vulnerability to fluctuations in the availability and price of food items;
- the exclusivity provisions of the Morrisons Operating Agreement;
- the commitment of the Group's management time and our resources required to manage and operate the Morrisons Operating Agreement;

- harm to our reputation and the fees we anticipate earning in the event of an early termination of the Morrisons Operating Agreement, and even if the 2016 Extension is not terminated, a delay to deliver the Erith CFC;
- our direct competition with Waitrose.com and Morrisons.com who are both also our key contractual counterparties;
- our exposure to investigations, proceedings or enforcement actions by anti-trust or regulatory authorities resulting from our business arrangements with key competitors;
- our failure to continue to raise substantial additional funding may restrict our development;
- litigation and other adversarial actions;
- shareholder activism;
- exchange rate fluctuations;
- unsafe food conditions and increased costs resulting from a failure in our cold chain;
- our debt;
- contractual obligations limiting our operating and financial flexibility;
- restrictive covenants limiting our operating and financial flexibility;
- risks related to our capital structure;
- risks related to the Notes, the Guarantees and the Collateral and other limitations applicable to investments in the Notes;
- the other factors discussed in more detail in the section entitled "*Risk Factors*"; and
- factors that are not known to us at this time.

This list of factors above and the other factors discussed in the section entitled "*Risk Factors*" are not exhaustive. Other sections of this Offering Memorandum describe additional factors that could adversely affect our results of operations, financial condition, liquidity and the development of the industry in which we operate. New risks can emerge from time to time, and it is not possible for us to predict all such risks, nor can we assess the impact of all such risks on our business or the extent to which any risks, or combination of risks and other factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, you should not rely on forward-looking statements as a prediction of actual results.

Any forward-looking statements are only made as of the date of this Offering Memorandum. Accordingly, we do not intend, and do not undertake any obligation, to update any forward-looking statements set forth in this Offering Memorandum. You should interpret all subsequent written or oral forward-looking statements attributable to us or to persons acting on our behalf as being qualified by the cautionary statements in this Offering Memorandum. As a result, you should not place undue reliance on such forward-looking statements.

CERTAIN DEFINITIONS

Certain definitions and technical terms used in this Offering Memorandum are defined in the section entitled "*Glossary and Technical Terms*".

PRESENTATION OF FINANCIAL AND OTHER DATA

Financial Information

Unless otherwise indicated the financial information included into this document is based on International Financial Reporting Standards as adopted by the European Union ("IFRS"), International Financial Reporting Interpretations Committee interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

This Offering Memorandum includes financial information derived from our audited consolidated financial statements as of and for each of the 52 weeks ended 30 November 2014 ("FYE 2014"), 29 November 2015 ("FYE 2015") and 27 November 2016 ("FYE 2016") and from our unaudited condensed consolidated financial statements as of and for the 22 weeks ended 30 April 2017 ("P5 2017") (containing comparatives for the 20 weeks ended 17 April 2016 ("P5 2016")). This Offering Memorandum also includes certain financial information relating to our Key Performance Indicators derived from our audited consolidated financial statements as of and for each of the 52 weeks ended 1 December 2013 ("FYE 2013") and the 53 weeks ended 2 December 2012 ("FYE 2012").

It is important to note for comparability purposes that P5 2017 had 22 weeks and P5 2016 had 20 weeks. This is because in November 2016 Ocado decided for financial years from FYE 2017 onwards to move from a financial calendar comprising 13 four weekly accounting periods to a financial calendar of 12 accounting periods where each quarter comprises three periods of 5 weeks, 4 weeks and 4 weeks. Additionally, FYE 2012 had 53 trading weeks while FYE 2013 through FYE 2016 each had 52 trading weeks. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors affecting Comparability*".

Our consolidated financial statements for FYE 2014, FYE 2015 and FYE 2016 and our condensed consolidated financial statements for P5 2016 and P5 2017 appear in the F-pages of this Offering Memorandum. Our consolidated financial statements for FYE 2014, FYE 2015 and FYE 2016 should be read in conjunction with the relevant reports of our independent auditor as such reports relate to our audited consolidated financial statements as of and for FYE 2014, FYE 2015 and FYE 2016.

The preparation of financial information in conformity with IFRS requires the use of certain critical accounting estimates. Please refer to "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Significant accounting policies and critical estimates, judgements and assumptions*". It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial information are disclosed in the notes to the financial information set out in "*Consolidated Financial Statements for FYE 2016/ FYE 2015—Notes to the Consolidated Financial Statements*" and "*Consolidated Financial Statements for FYE 2015/FYE 2014—Notes to the Consolidated Financial Statements*".

The Group's activities are not segmented and the Group does not report any geographic segments because all of the Group's sales are within the United Kingdom which is one economic environment in the context of the Group's activities.

Non-GAAP Measures/Alternative Performance Measures

We assess the performance of the Group using a variety of alternative performance measures which are not defined under IFRS and are therefore termed 'non-GAAP' measures. These non-GAAP measures have been reported as we believe that they provide important alternative measures with which to assess the Group's underlying trends, performance and position and can assist analysts, investors and other parties to evaluate our business. You should not consider these non-GAAP measures as alternatives for IFRS measures and you should be aware that the Company's calculation of non-GAAP measures may be different from the calculation used by other companies and therefore comparability may be limited. The non-GAAP measures we use are:

- Gross Sales (Group);
- Gross Sales (Retail);
- Exceptional Items;
- Revenue (Retail);
- Gross Profit (Retail);

- Underlying Distribution Costs and Underlying Administrative Expenses;
- Adjusted Operating Profit/Loss;
- Group EBITDA;
- Adjusted EBITDA;
- Adjusted Operating Profit;
- External Gross Debt;
- External Net Debt;
- Capital Expenditure; and
- Cash Available for Debt Service and Growth.

A reconciliation of the non-GAAP measures used in this Offering Memorandum to the nearest measure prepared in accordance with IFRS is presented in the "*Summary Financial and Other Information*" section below.

Non-GAAP Measures/Alternative Performance Measures

Gross Sales (Group)

Gross Sales (Group) is a measure of reported revenue before excluding value added tax and relevant vouchers. Gross Sales (Group) is a common measure used by investors and analysts to evaluate the operating financial performance of companies within the retail sector. Gross Sales (Group) includes income received pursuant to the Morrisons Operating Agreement. For a reconciliation of this measure to its most directly comparable IFRS measure, see "*Summary Financial and Other Information—Other Financial and Pro Forma Data*".

Gross Sales (Retail)

Gross Sales (Retail) is a measure of reported revenue for the Group's retail operation, before excluding value added tax and relevant vouchers. The Group's retail operation comprises Ocado.com, Fabled.com, Fetch.co.uk and Sizzle.co.uk. Management consider this an important measure of the performance of the Group's retail business. For a reconciliation of this measure to its most directly comparable IFRS measure, see "*Summary Financial and Other Information—Other Financial and Pro Forma Data*".

Revenue (Retail)

Revenue (Retail) is a measure of reported revenue for the Group's retail business. This is the Group's revenue excluding Morrisons recharges and fees. The Group's retail operation comprises Ocado.com, Fabled.com, Fetch.co.uk and Sizzle.co.uk. Management consider this an important measure of the performance of the Group's retail business. See "*Summary Financial and Other Information—Other Financial and Pro Forma Data*".

Gross Profit (Retail)

Gross Profit (Retail) is a measure of gross profit for the Group's retail business. This is the Revenue (Retail) less the cost of sales excluding the Morrisons recharges and fees. The Group's retail operation comprises Ocado.com, Fabled.com, Fetch.co.uk and Sizzle.co.uk. Management consider this an important measure of the performance of the Group's retail business. See "*Summary Financial and Other Information—Other Financial and Pro Forma Data*".

Exceptional Items

Exceptional items, as disclosed on the face of the Consolidated Income Statement, are items that due to their materiality and/or nature, as determined by management, have been classified separately in order to draw them to the attention of the reader of the consolidated financial statements. Management believes this facilitates comparison with prior periods to assess trends in underlying financial performance more readily. It is determined by management that each of these items relates to events or circumstances that are non-underlying in nature.

We apply judgment in identifying the significant items of income and expense that are recognised as exceptional to help provide an indication of our underlying business performance. Examples of items that we consider as exceptional include, but are not limited to, corporate reorganisations, head office relocation costs, and any costs, outside of the normal course of business as determined by management. For a reconciliation of this measure to its most directly comparable IFRS measure, see "*Summary Financial and Other Information—Other Financial and Pro Forma Data—Exceptional Items*".

Underlying Distribution Costs and Administrative Expenses

Underlying Distribution Costs and Administrative Expenses are measures which seek to reflect the underlying performance of the Group that management believes will contribute to long-term sustainable growth. As such, they exclude the impact of depreciation, amortisation, impairment and costs relating to the provision of services to Morrisons primarily in relation to MHE JVCo Limited ("MHE JVCo"), our joint venture entity. See "*Business—Our Solutions Business—Relationship with Morrisons —Dordon CFC"* and "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Principal factors affecting results of operations—Relationship with Morrisons*". For a reconciliation of these measures to their most directly comparable IFRS measure, see "*Summary Financial and Other Information—Other Financial and Pro Forma Data—Underlying Distribution Costs and Administrative Expenses*".

Adjusted Operating Profit/Loss

Adjusted Operating Profit/Loss is equal to operating profit less exceptional items, share of results from joint venture and share based management incentives. See "*Summary Financial and Other Information—Other Financial and Pro Forma Data*".

Group EBITDA

In addition to measuring financial performance of the Group based on operating profit, we also measure performance based on Group EBITDA. Group EBITDA is defined as the Profit (Loss) for the period before depreciation, amortisation, impairment, net finance expense, taxation and exceptional items. EBITDA based measures are common measures used by investors and analysts to evaluate the operating financial performance of companies.

We consider Group EBITDA provides a useful measure of our operating performance and an indicator of our underlying cash flow by eliminating depreciation, amortisation, impairment and exceptional items. Group EBITDA is not a direct measure of our liquidity, which is shown by our cash flow statement, and needs to be considered in the context of our financial commitments. For a reconciliation of this measure to its most directly comparable IFRS measure, see "*Summary Financial and Other Information—Operating Key Performance Indicators*".

Adjusted EBITDA

In addition to measuring financial performance of the Group based on operating profit, we also measure performance based on Adjusted EBITDA. Adjusted EBITDA is defined as the Profit (Loss) for the period before depreciation, amortisation, impairment, net finance expense, taxation, exceptional items, share-based management incentive charges and the impact of our joint venture. Adjusted EBITDA is a common measure used by investors and analysts to evaluate the operating financial performance of companies.

We consider Adjusted EBITDA provides a useful measure of our operating performance, and an indicator of our underlying cash flow of our retail operations by eliminating depreciation, amortisation, impairment, exceptional items, share-based management incentive charges and the impact of our joint venture. Adjusted EBITDA is not a direct measure of our liquidity, which is shown by our cash flow statement, and needs to be considered in the context of our financial commitments. For the purposes of this document we will discuss our performance based on Adjusted EBITDA. For a reconciliation of this measure to its most directly comparable IFRS measure, see "*Summary Financial and Other Information—Operating Key Performance Indicators*".

Adjusted Operating Profit

Adjusted Operating Profit is a measure of the Group's operating profit or loss, adjusted to exclude exceptional items, share-based management incentive charges and the share of result from our 50% equity interest in MHE JVCo. See "*Business—Our Solutions Business—Relationship with Morrisons—Dordon CFC*" and "Management's Discussion and Analysis of *Financial Condition and Results of Operations—Principal factors affecting results of operations—Relationship with Morrisons*". For a reconciliation of this measure to its most directly comparable IFRS measure, see "*Summary Financial and Other Information—Other Financial and Pro Forma Data*".

External Gross Debt

External Gross Debt is a measure of the Group's debt to third parties which are not considered a related party of the Group.

External gross debt consists of borrowings and obligations under finance leases (both current and non-current), less finance leases payable to joint venture interests of the Group. Borrowings are measured as the net proceeds raised, adjusted to amortise any discount over the term of the debt. For a reconciliation of this measure to its most directly comparable IFRS measure, see "*Summary Financial and Other Information—Operating Key Performance Indicators*".

External Net Debt

External Net Debt consists of borrowings and obligations under finance leases (both current and non-current), less finance leases payable to joint venture interests of the Group and cash and cash equivalents. Borrowings are measured as the net proceeds raised, adjusted to amortise any discount over the term of the debt.

External Net Debt is a measure of the Group's net debt that provides an indicator of the overall balance sheet strength. It is also a single measure that can be used to assess the combined impact of the Group's cash position and its debt. The use of the term 'net debt' does not necessarily mean that the cash included in the net debt calculation is available to settle the liabilities included in this measure, as there is an element of restricted cash in the Group. For a reconciliation of this measure to its most directly comparable IFRS measure, see "*Summary Financial and Other Information—Other Financial and Pro Forma Data*".

Capital Expenditure

Capital expenditure represents the cash outflows incurred during the period to acquire non-current assets such as property, plant and equipment, certain intangible assets and certain development IT costs, including the Company's share of the MHE JVCo of £3.9 million of capital expenditure in FYE 2016, £4.4 million of capital expenditure in FYE 2015 and of £11.7 million of capital expenditure in FYE 2014, but, where relevant, excluding cash spend in relation to assets leased from MHE JVCo under finance lease arrangements. For a reconciliation of this measure to its most directly comparable IFRS measure, see "*Summary Financial and Other Information—Other Financial and Pro Forma Data*".

Cash Available for Debt Service and Growth

Cash available for debt service and growth is defined as Adjusted EBITDA combined with the change in net working capital and after deducting maintenance capital expenditure and income taxes paid. It provides a measure of the cash available to invest in the business and the service and repayment of debt. See "*Summary Financial and Other Information—Other Financial and Pro Forma Data*".

Market Data

In this Offering Memorandum, we rely on and refer to information regarding our business and the market in which we operate and compete. Certain market data and certain economic and industry data and forecasts used in this Offering Memorandum were obtained from internal surveys, market research, and governmental and other publicly available information, independent industry publications

and reports prepared by industry consultants that we believe to be reliable. Certain information in this Offering Memorandum on the industry is from independent market research carried out by Euromonitor International Limited, The Institute of Grocery Distribution and IGD services and Kantar Worldpanel, but should not be relied upon in making or refraining from making an investment decision. Certain market share information and other statements presented herein, including in the sections "*Summary*", "*Risk Factors*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*", "*Industry Overview*"" and "*Business*", regarding our position relative to our competitors with respect to the manufacturing or distribution of particular products are based on statistical data or information obtained from independent third parties that we believe to be reliable, including IGD and other sources, as well as on our knowledge of our markets and industry, our own investigation into market conditions and our calculations based on such information.

These data are subject to change and cannot be verified with complete certainty due to limits on the availability and reliability of the raw data and other limitations and uncertainties inherent in any statistical survey. Thus, our market share estimates, calculated using our internal customer records, and data of our competitors published by third parties, may differ from third-party analyst estimates of our market share. We cannot provide any assurance that customer numbers of our competitors in such analyst reports and databases are correct or the same as those contained in our competitors' internal records. Therefore, you should use caution in analysing these estimates and should not place undue reliance on them.

Where information has been sourced from a third party, such information has been accurately reproduced and as far as we are aware and are able to ascertain from information published by such third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. However, you should keep in mind that we have not independently verified information we have obtained from any third-party sources.

Industry publications, surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Where we have found information from different sources to be conflicting, we have used the information that we believe to be the most accurate and prepared on a basis consistent with the other sources we have used.

Operational Data

We present throughout this document certain key performance indicators, including average orders per week, average order size, CFC efficiency, average deliveries per van per week ("DPV"), average number of operational staff (full-time equivalent) and product waste. Further detailed descriptions of these key performance indicators are included in "*Selected Financial Information*" below. Unless otherwise stated in this document, "orders" when used in respect of the capacity available to Ocado to service the online business of Morrisons, refers to Ocado equivalent orders and not necessarily the number of orders fulfilled on behalf of Morrisons. See "*Business—Our Solutions Business—Relationship with Morrisons*" below for further details.

Rounding

Certain figures contained in this document, including financial information, have been subject to rounding adjustments. Accordingly, in certain instances (i) the sum or percentage change of such numbers may not conform exactly with the total figure given; and (ii) the sum of the numbers in a column or a row in certain tables may not conform exactly with the total figure given for that column or row.

Currencies

In this Offering Memorandum, references to "GBP", "£", "sterling", "pound sterling", "pounds sterling" or "pence" are to the currency of the United Kingdom ("U.K."), references to "euro," "EUR," "€" or "eurocents" are to the currency of the member states of the European Union ("EU") participating in the European Monetary Union; and references to "U.S. dollar", "USD" or "$" are to the currency of the United States.

No representation is made that any specific currency amount in this Offering Memorandum could have been converted into any of the other currencies presented in this Offering Memorandum at any particular rate or at all.

Change of external auditors

The Company's audit committee decided to undertake a tender of the external auditor role in 2016. PwC audited the Group's consolidated financial statements beginning with the 2001 financial year and the current audit engagement partner's five year term was due to end in mid-2017. A formal tender of the external audit contract had not been carried out since PwC was first engaged in 2001. Although the Board and the Company's audit committee remained satisfied with both PwC's quality of service and their independence and objectivity, after a competitive tender process took place in 2016, the Company's audit committee recommended that the Board appoint Deloitte LLP as principal accountants and U.K. statutory auditors for the 2017 financial year. The Company's audit committee believed that this timing was in the best interests of shareholders as it coincided with the timing of the rotation of PwC's audit engagement partner under professional standards and because a tender had not been conducted since 2001.

A resolution to approve the appointment of Deloitte LLP as U.K. statutory auditor was put forth by the Board and approved by shareholder vote at the Company's annual general meeting on 3 May 2017. PwC ceased to hold office effective as of the conclusion of the Company's annual general meeting, having completed the audit of the Company's consolidated financial statements as of and for the 52 weeks ended 26 November 2016. Deloitte LLP were engaged as U.K. statutory auditors from 3 May 2017.

EXCHANGE RATE INFORMATION

The following table sets out the period end, high, average and low exchange rates, for the periods and dates indicated, expressed as U.S. dollars per £1.00, in each case as published by Bloomberg Composite Rate (London).

The Bloomberg Composite Rate is a "best market" calculation, in which, at any point in time, the bid rate is equal to the highest bid rate of all contributing bank indications and the ask rate is set to the lowest ask rate offered by these banks. The Bloomberg Composite Rate is a mid-value rate between the applied highest bid rate and the lowest ask rate. The rates may differ from the actual rates used in the preparation of our consolidated financial statements and other financial information appearing in this Offering Memorandum.

As at 9 June 2017, the Bloomberg Composite Rate of pound sterling was $1.2724 per £1.00.

	U.S. dollars per £1.00			
	High	**Low**	**Average[1]**	**Period End**
Year				
2014	1.7165	1.5515	1.6460	1.5581
2015	1.5872	1.4654	1.5246	1.4734
2016	1.4810	1.2158	1.3446	1.2345
2017 (through 9 June 2017)	1.3036	1.2068	1.2572	1.2723
Month	**High**	**Low**	**Average[2]**	**Period End**
January 2017	1.2607	1.2068	1.2348	1.2570
February 2017	1.2636	1.2417	1.2490	1.2417
March 2017	1.2563	1.2153	1.2343	1.2542
April 2017	1.2950	1.2385	1.2632	1.2950
May 2017	1.3036	1.2804	1.2926	1.2890
June 2017 (through 9 June 2017)	1.2938	1.2724	1.2881	1.2724

(1) The average of the closing Bloomberg Composite Rate on the last business day of each month during the relevant period.

(2) The average of the closing Bloomberg Composite Rate on each business day during the relevant period.

SUMMARY

The following overview information should be read as an introduction to the more detailed information appearing elsewhere in this Offering Memorandum, including the consolidated financial statements and the accompanying notes beginning on page F-1. Any decision by a prospective investor to invest in the Notes should be based on consideration of the Offering Memorandum as a whole, including the information discussed in "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors" and not solely on this summarised information.

Overview

Ocado is one of the world's leading dedicated online grocers. Headquartered in Hatfield, U.K., we were founded in 2000, have been listed on the London Stock Exchange since July 2010 and are a member of the FTSE 250 index with a market capitalisation of £1.73 billion as at 9 June 2017. Our objective is to provide, at a low operating cost, our customers with the best proposition in online grocery shopping. We have developed a leading end-to-end operating solution for online grocery retail based on proprietary technology and intellectual property for operating our own retail business, which we believe can also be deployed to provide platform solutions to our commercial partners. Grocery is the largest of all retail segments and is increasingly moving online supported by the rapid growth of shopping on mobile devices.

Online is forecast to be the fastest-growing channel in U.K. grocery over the next five years (source: IGD). We believe that consumers are increasingly seeking an online grocery shopping proposition that allows them to save time and effort while still retaining the wide product range, high quality and low cost that they expect from a store-based supermarket. We believe we are well-placed to benefit from the growing demand for ordering groceries online. As one of the world's leading dedicated online grocers, we believe we are in a strong position in the U.K. grocery market to grow our retail customer base and take market share from our store-based competitors.

In FYE 2016, we sold approximately 50,000 SKUs on average at Ocado.com and have expanded our offering into general merchandise categories, including through our dedicated destination sites (focusing on specialised product ranges), which separately sell more than 22,000 SKUs. Our Ocado.com range comprises branded products, Waitrose own-brand products and Ocado own-brand products (sourced directly from various manufacturers). In accordance with the terms of our sourcing agreement with Waitrose (the "Sourcing Agreement"), approximately 80% of our third-party branded grocery sales are sourced through the Sourcing Agreement. We have a wide range of branded products, and while we have some overlap with Tesco and Waitrose, 20% of our sales for FYE 2016 were generated by branded products sold only at Ocado. Our dedicated destination sites focus on specialist product ranges. These destination sites are our pet store, Fetch.co.uk, our kitchen and dining store, Sizzle.co.uk, and our new premium beauty offering, Fabled.com.

In FYE 2016, we had approximately 580,000 active retail customers (FYE 2015: 509,000) (defined as customers who shopped at Ocado at least once in the last 12 weeks) and we processed an average of approximately 230,000 orders per week for Ocado customers (FYE 2015: 195,000). Due to our dedicated online retail model, unlike the major retailers, Ocado.com does not experience any cannibalisation of other channels such as physical stores with the conversion of new retail customers. As of the end of FYE 2016, our delivery area for Ocado.com covered over 70% of U.K. households. Our Ocado.com delivery catchment has not changed significantly over the last five years, and so our demand has grown primarily from new and existing customers within our existing catchments. In FYE 2016, 99.0% of items were delivered exactly as ordered and 94.9% of deliveries were on time or early in a one hour time slot.

In our retail business, we offer delivery of grocery products, as well as general merchandise, centrally picked from one of our three state-of-the-art, highly automated warehouses (the customer fulfilment centres, or "CFCs") or, in the case of certain of our general merchandise, our general merchandise distribution centre ("GMDC"), all in the U.K. We expect our third CFC (in Andover), which utilises our new proprietary fulfilment solution, to be more efficient to operate when at scale than our existing facilities. We expect our fourth CFC, which will utilise the same technology, to be even more efficient. We plan to open our fourth CFC in Erith, South East London, and a second GMDC nearby in FYE 2018.

Underpinning our retail customer offering are our bespoke software and equipment systems that have been mainly developed in-house. In addition to utilising these systems ourselves, we also offer them to other retailers as a service offering. We are seeking to commercialise this technology in our Solutions Business by offering these systems as the Ocado Smart Platform ("OSP") product, or components thereof, as required. We believe our solutions partners will benefit from our years of innovation originating from our own retail business through solutions that offer what we believe to be a better customer offer and a more cost-efficient way of operating online.

Morrisons, our first solutions partner, has seen strong growth in their online business since we launched our arrangement with them in 2014 by providing them with access to 50% of the capacity of our Dordon CFC. We will also provide Morrisons with 30% of the capacity of our fourth CFC in Erith when it opens in FYE 2018. We have also licensed to Morrisons the software necessary to fulfil online orders fulfilled from their own retail stores, alongside those online orders fulfilled by us for them from our CFCs and provide their customers with general merchandise products fulfilled and delivered from our existing range.

We have generated significant year-on-year growth in Gross Sales (Retail), which measures our retail sales, and Gross Sales (Group), which measures retail sales and revenue from our Solutions Business. We generated Gross Sales (Retail) of £1,267.4 million in FYE 2016, an increase of 13.6% as compared to FYE 2015 and Gross Sales (Group) of £1,386.7 million in FYE 2016, an increase of 15.1% as compared to FYE 2015. We have also achieved positive and growing Adjusted EBITDA since FYE 2012 and generated £76.9 million of Adjusted EBITDA in FYE 2016 (FYE 2015: £75.8 million; FYE 2014: £64.7 million). We believe that as our model has a relatively lean cost base, which we expect to further improve through realisation of further operating leverage, we have better future Adjusted EBITDA margin potential than our store-based competitors.

Our principal activities are grocery retailing in the U.K. and the development and monetisation of intellectual property and technology used for the online retailing, logistics and distribution of grocery and consumer goods, currently derived almost entirely from the U.K. The principal activities of the Group are currently managed as one segment.

Our Strengths

1. ***Ideally positioned to benefit from continuing channel shift of grocery, the largest retail segment, to online***

In the U.K., there has been a shift in grocery away from physical stores to online purchasing, as demographic trends, greater availability of products online, population density, improving service proposition and technological advances in applications and customer interfaces have driven penetration in the online grocery industry, as well as in e-commerce generally.

Grocery is the largest of all retail segments, representing over 50% of retail sales globally and approximately 50% of retail sales in the U.K. The U.K. grocery market is estimated to be worth approximately £180 billion in sales in 2016 and forecast to increase to approximately £208 billion by 2021 (*source*: IGD). Over the same period, it is estimated that the U.K. online grocery segment will grow from £9.7 billion to £14.6 billion, a 51% increase from 2016, and account for 18% of the grocery industry growth. IGD forecasts that the online grocery market will grow at 8.5% CAGR (2016-21) compared with 2.9% for grocery as a whole. Similarly, Kantar Worldpanel forecasts that global grocery e-commerce will grow to 9% of the grocery market and be worth $150 billion by 2025.

As one of the world's leading dedicated online grocers, we believe that we are well positioned to benefit from this growth and, with sufficient potential capacity in place to increase revenues by an estimated £350 million without significant further investment, our strategy is to capture market share through what we believe is a superior retail customer offering, including highly attractive service, wider and fresher ranges and competitive prices. Currently, our Hatfield and Dordon CFCs are operating at near peak utilisation while our Andover CFC is operating at very low utilisation. We plan to ramp up our Andover CFC in line with future growth.

We believe that commercialising our technology through our Solutions Business proposition will position us to capitalise on the grocery channel shift to online on a global level. As competition increases, improved technology and services will be required to further enhance the online grocery shopping experience. We believe our Solutions Business proposition is well placed to support future demand for online grocery capabilities. While demand is expected to accelerate, significant barriers to entry exist in the online grocery segment relating to scale, developing a customer base, supplier contracts and relationships, brand identity and the development of the requisite technology and delivery capabilities. These significant barriers to entry help position us to capitalise on future growth in this industry.

2. Superior customer offering with leading range, service and price proposition driving growth

Brands and Product Range

We believe our extensive product range of approximately 50,000 SKUs (FYE 2016, on average) at Ocado.com is the most extensive grocery offering by a U.K. supermarket. We sell Ocado own-label, Waitrose own-label and third party-branded products via Ocado.com. We also focus on product freshness, which is facilitated by the strict management of stock levels and rotation, through real-time visibility over customer ordering and due to the majority of suppliers delivering direct to the CFC (rather than via regional distribution centres). This ensures our customers receive products which we believe to be fresher than customers could typically buy in a supermarket.

We have a Sourcing Agreement with Waitrose that gives us access to Waitrose own-label and third party-branded products on the same terms (including cost price) as Waitrose sources them, as well as the benefit of our combined scale. This continues to provide great opportunities and advantages for our customers.

We also benefit from the premium and quality associations of the Waitrose brand. The arrangement allows us to choose to participate in certain promotional activities arranged by Waitrose with suppliers (although we and Waitrose are free to arrange our own promotional activities as well).

Price

We aim to price competitively in order to offer an attractive value for money proposition. We seek to match our prices against the market leader, Tesco. This started in 2008 with *Tesco Price Match*, matching prices of thousands of branded products. In 2012 this was expanded with the introduction of *Low Price Promise*, which compares the cost of each customer's shopping basket to equivalent branded products and comparable private label products to Tesco.com (adjusted where necessary for different pack sizes), and provides a voucher if we are not cheaper. In FYE 2016, product sales covered by the basket price matching accounted for approximately 40% of sales. In FYE 2016, information from our price match program indicated that Ocado customers had average savings of approximately 2.5% as compared to Tesco. We believe these price commitment schemes have helped improve price perception and transparency for customers. We also continue to develop our own-brand range, which is tiered to the mainstream own-label brands of our competitors.

Customer service

We believe the functionality of our Webshops and mobile applications, product availability, order accuracy as well as fast and convenient delivery service are fundamental to our customer service proposition. Customers can place an order on our Webshop (which is mobile responsive) or our Ocado mobile/tablet applications (for Apple, Android and Kindle devices), which offer a broad range of functionality and targeted product recommendations, which we believe enhance the customer experience. We aim to provide our customers with the convenience and functionality of the latest mobile technology. We believe we were the first grocery retailer in the world to produce a global, fully transactable retail mobile application for the iPhone. We believe our efficient and user-friendly customer interfaces, and high levels of customer service (demonstrated by our 95% punctuality and 99% order accuracy recorded in FYE 2016) contribute to our high levels of customer retention. We have seen that active customers tend to remain loyal, shopping with us regularly over significant periods of time.

3. Leading Brand with growing and loyal customer base

Founded in 2000, we pride ourselves on having developed and sustained a market-leading customer offering in dedicated online grocery retail, as shown by our approximately 580,000 active retail customers, £1,267.4 million in FYE 2016 Gross Sales (Retail) and the recent consumer and industry awards we have received, including *Supermarket of the Year* for the second consecutive year at *The Grocer Gold Awards 2016*, *Best Online Retailer* at the *Best of Organic Market Awards 2016* and *Best Online Retailer* at the *Loved By Parents Awards 2016*.

Even with only limited increases in marketing costs, engagement with our existing customer base has grown from 2012 to 2016:

- The number of active retail customers has increased at a 13.1% CAGR over the period, from approximately 355,000 in 2012 to 580,000 in 2016;
- Average order size and order frequency have remained relatively consistent over the same period, with an order size in FYE 2016 of £108.10 per order compared to £112.13 per order in FYE 2012 and order frequency of 10.9 visits per annum in FYE 2016 compared to 10.8 in 2012; and
- Over the same period marketing spend as a percentage of Gross Sales (Retail) has decreased from 1.7% in 2012 to 1.0% in 2016.

Our Webshops offer a smart and personalised user interface to enhance customer experience and engagement, where customers can create or edit an order. All product lines are searchable (with our Webshops displaying photographs of almost all products) and when a customer searches for a type of product, particular items ordered before by that customer are displayed higher in the search hierarchy, along with products on promotion and other personalised recommendations. In FYE 2016 we averaged approximately 230,000 orders per week (258,000 in P5 2017) and customers purchased an average of approximately 50 products per order.

4. Our advanced technology and logistics solutions create competitive advantages

We continually implement additions and improvements to our IT systems and highly automated, often purpose-built, machinery. We believe that, as our IT systems and machinery become more efficient and sophisticated, our competitive advantages increase. The majority of our current IT systems are bespoke (there often being no suitable alternatives available commercially) and have predominantly been developed in-house by our IT team. While we use third party MHE at our Hatfield and Dordon CFCs, our Andover CFC and forthcoming Erith CFC will utilise our proprietary MHE that we have developed and that we believe will provide further efficiencies and competitive advantages. All our CFCs operate using proprietary software.

Our first patents were granted in FYE 2016 and by the end of that year, we had filed patent applications covering 58 separate innovations. Of the patent applications filed so far, the majority relate to our physical infrastructure solution. Our team of approximately 1,000 IT staff in the U.K. and across four technology centres in Poland, Bulgaria and Spain maintain and develop a broad range of proprietary technology for us, focusing on automation and robotics, the Internet of things, data science and artificial intelligence, big data and the cloud, as well as web and app development. Our software engineering teams support our various software systems and applications, including the replatforming of our Webshops, backend systems, slot booking and route setup, store-picking and last mile delivery.

Our state-of-the-art, highly automated CFCs currently in operation are capable of processing approximately 320,000 orders per week on behalf of Ocado.com (with further orders for our destination websites Fetch, Sizzle and Fabled processed through our GMDC) once Andover is fully utilised and cover over 70% of U.K. households. These items are delivered to customers either directly from the CFCs or via the Spokes (the trans-shipment points for deliveries not made directly from the CFC). Our CFC capacity is described in terms of “effective” capacity, which we present in terms of Ocado equivalent order capacity. We believe that the three operational CFCs will have the effective capacity to process approximately 420,000 orders per week once fully ramped up (95,000 of which are allocated to Morrisons at our Dordon CFC). Although currently at the start of the ramp up process, we believe our Andover CFC will ultimately have an effective capacity to process 65,000 orders per week

and our fourth CFC in Erith will add an additional effective capacity to process approximately 200,000 orders per week (approximately 60,000 of which will be allocated to Morrisons). We believe that the capacity of our CFCs is sufficient for our current orders and to accommodate growth in line with our current expectations.

From FYE 2015 to FYE 2016 we have increased the efficiency of our mature CFCs by 3.2% (FYE 2016: 160 UPH; FYE 2015: 155 UPH) and the efficiency of our delivery operations via our Spoke network and routing efficiency (FYE 2016: 176 DPV; FYE 2015: 166 DPV), while maintaining 0.7% average waste level.

Additionally, we believe the experience we have developed in operating one of the world's leading dedicated online grocery supermarkets and as service provider to Morrisons provides us with the know-how and expertise to assist our future partners in adopting and efficiently scaling their online grocery businesses. Furthermore, the growth of our retail business in the U.K. enables further investment into improving our technology for the benefit of our current and future corporate partners.

We believe that many of the structural advantages of our retail business model can be realised by our future corporate partners through the implementation of the products sold by our Solutions Business.

5. Proven execution track record of operational excellence with robust historical financial performance and operating metrics

We have developed an entire end-to-end solution to operate online in the grocery market, vertically integrated across software and physical equipment solutions. We are the only U.K. online supermarket that services all of its online orders from dedicated warehouses where all the picking and packing of products is performed centrally and we cover over 70% of U.K. households with our 3 CFCs, 1 GMDC and 17 Spokes. We believe that the automation of equivalent store operations in the CFCs, the aggregation of stock and demand in centralised and automated distribution centres (allowing Ocado to take direct deliveries to the CFCs from suppliers, cutting out the majority of costs of regional distribution centres), real-time control over stock, not having to rent or purchase sites in expensive locations, reduced staff costs and lower energy costs (by holding chilled products in a single large refrigerated chamber per CFC rather than in open fridges in a heated store), all provide clear cost and service benefits to us.

We continuously seek to lower the cost of investment required for online grocery activities in order to support growth in our own retail business as well as to make our offering attractive to potential solutions partners. Our MHE is modular (can be built to different sizes), scalable (can be increased in size within a site), and we expect will be faster to deploy in the future (shorter build and commissioning lead times), allowing for reduced up-front capital commitment.

We have developed what we believe to be leading mobile applications for our customers as they make more of their purchases from mobile devices and we also continue to enhance our delivery capabilities. Approximately 55% of Ocado orders were placed on a mobile device in FYE 2016 (FYE 2015: 50%). In FYE 2016, approximately 99.0% of items ordered were delivered exactly as ordered (FYE 2015: 99.3%), facilitated by our technology that, amongst other things, prevents a customer from ordering a product that is anticipated to be out of stock when the order is picked in the CFC. Furthermore, in FYE 2016, 94.9% of all deliveries were on time or early (FYE 2015: 95.3%). Timely delivery within one-hour time slots seven days a week, with same day delivery service within certain catchment areas, and with direct delivery to the customer's kitchen make for an attractive customer experience and provide us with a competitive advantage.

We believe our business model has a number of material scale and structural advantages compared to the models operated by our competitors (all of which have store networks and regional distribution centres and predominantly provide their online services out of those stores), including the following:

- the ability to stock a greater range of products (we sold approximately 50,000 SKUs on average on Ocado.com in FYE 2016, including a "long-tail" of slower-moving products which a traditional supermarket might struggle to stock efficiently);
- improved product freshness for customers due to faster stock turn and reduced stockholding levels, including product life commitments which in many cases promise two thirds of the selling life to our customers, while nevertheless maintaining reduced levels of wastage (only 0.7% of Gross Sales (Retail) in each of FYE 2016 and FYE 2015); and
- improved product availability for customers as our centralised inventory management means that stock promised to online customers is not unavailable at the time of order fulfilment as a result of unpredictable demand from store customers. In addition, we have high levels of accuracy of stock pick by utilising scanning technology and proprietary user interfaces for the person picking. These both contribute to higher order accuracy.

These advantages have resulted in stronger sales growth and a higher revenue per employee, in each case as compared to our traditional supermarket competitors.

We have generated strong revenue and Adjusted EBITDA growth over each of the last three years. Our strong track record has been delivered by our experienced management team, and we have demonstrated the success of our strategy of organic growth of our retail business, which, coupled with the implementation of our Solutions Business (including our recent agreement with our first international corporate partner) , we believe will enable us to utilise our proprietary software and MHE developed through our years of online retail grocery experience to assist our solutions partners in efficiently adopting and scaling their online grocery retail businesses.

Our objective is to create a virtuous cycle between growth, innovation, efficiency and investment. This is enabled by our end-to-end solution, utilising proprietary technology, and the elimination of significant costs incurred by store-based retailers. The resultant cost benefits and cashflow enable us to reinvest into our business with the objective of driving growth. The virtuous cycle drives both our retail business and Solutions Business. Any improvements we make to our retail operations can be implemented in the service provided to Morrisons and through our Solutions Business technology offered to future corporate partners. Thus the investment we make in innovation improves our proposition, both for retail and corporate partners. From FYE 2012 to FYE 2016 our Gross Sales (Group) and Adjusted EBITDA have had a compound annual growth rate of 17% and 21%, respectively.

In general, dedicated online retailers tend to operate at lower margins than multi-channel retailers in the same sub-sector. Contrary to trends in other sub-sectors, we believe the strength of our business model and operating efficiency has led to higher average margins than the typical multi-channel retail grocery sector.

We believe we have attractive investment opportunities to deploy the funds raised for general corporate purposes from this Offering (see "*Use of Proceeds*"). As one example, we estimate that a £220 million investment in building a new CFC (which is our estimate of the total capital cost of our Erith CFC together with the capital costs of the necessary vehicles and technology hardware less the working capital savings from the additional sales volumes) would have a return on capital invested[(1)] in excess of 50%, assuming our FYE 2016 operating margin[(2)] of 10.1% and the new CFC operating at full utilisation and generating annual Revenue (Retail) of £1,200 million. Management estimates that identified CFC and delivery efficiency savings could result in an operating margin in respect of such a

(1) We calculate return on capital invested as the operating contribution (which is equal to operating margin multiplied by revenue achieved) from the CFC for one year divided by total capital invested.

(2) Operating margin is equal to the sum of Revenue (Retail) and supplier income less costs of sales, distribution costs (other than depreciation and amortisation), and certain administration and non-voucher marketing costs (which are within administration costs), divided by Revenue (Retail).

future CFC of 11.6%. This estimated rate of return and potential operating margin are estimates and actual results may differ. There is no guarantee such returns or enhanced margins will be achieved or that the Group will have other investment opportunities providing similar expected returns. Constructing a CFC and such CFC reaching full utilisation takes a number of years and full utilisation assumes growth in customer orders, which may be affected by, amongst other things, economic conditions. The return on capital invested and enhanced operating margin are forward looking statements (see "*Forward Looking Statements*").

6. Seasoned and committed management team with supportive shareholder base

We have an experienced management team led by our Chief Executive Officer Tim Steiner, who founded the Group in 2000. Our Chief Financial Officer, Duncan Tatton-Brown, joined us in 2012 and has over 20 years of retail experience including as Group Finance Director of Kingfisher plc. Our Non-Executive Chairman, Lord Rose, who has worked in retail for over 40 years, was appointed to the Board of Directors in 2013, and previously held Chief Executive Officer positions at Argos plc, Booker plc, Arcadia Group plc and Marks and Spencer plc. Lord Rose was knighted in 2008 for services to the retail industry and corporate social responsibility, and granted a life peerage in August 2014.

Our Executive Directors have significant beneficial shareholdings in the Group with a combined holding of 5.2% as at 30 April 2017. We believe that the collective industry knowledge and leadership capabilities of our senior management team will enable us to continue to successfully execute our strategy.

Our Strategy

We strive for new and improved ways to deliver what we believe to be the world's most advanced end-to-end online grocery shopping and delivery solutions. Our strategy is designed to deliver shareholder value through our strategic objectives of driving growth and maximising efficiency by utilising proprietary knowledge.

Driving growth: continually enhancing the value of our proposition for our retail customers

We focus on improving our customer offering in order to retain existing customers and encourage them to make greater use of the Ocado service, as well as attracting new customers. For our retail customers, this is centred on the three core pillars of our proposition to customers—product range, price and customer service.

Driving growth: We intend to grow revenues through selectively adding capacity to meet growing demand within our existing geographic footprint

We currently deliver to over 70% of the households in the U.K. As the U.K. population grows and increasing numbers of consumers turn to online grocery shopping, we anticipate demand for our services to grow further.

Therefore, our strategy is to carefully expand our CFC capacity through investments in Andover and Erith, which are designed to be scalable, allowing us to increase capacity in stages to meet growing demand while maintaining high levels of utilisation. As demand grows, we also expect to increase the number of Spokes, helping us to maintain our existing highly-efficient delivery operations.

Driving growth: We intend to enhance our product range at Ocado.com and our destination sites

We intend to continue optimising the range of SKUs sold by Ocado.com (FYE 2016: approximately 50,000 on average; FYE 2015: approximately 47,000 on average), including a wider range of slower selling and specialist SKUs which a traditional supermarket might struggle to stock efficiently. We also plan to further improve the range of Ocado own-label products, which were 10.1% of Gross Sales (Retail) in FYE 2016, representing an increase of 10.9% as compared to FYE 2015.

We also intend to expand our offering of general merchandise offered through Ocado.com, as well as our dedicated destination sites which focus on specialist product ranges, such as our pet store, Fetch, our kitchen and dining store, Sizzle, and our new premium beauty offering, Fabled. Hosting these dedicated destination sites drives the range of products made available to us by niche suppliers and brands, allowing us to extend our range beyond conventional supermarkets. We are able to use our knowledge of our customer base to improve our product offering by focusing on products most desired by our customers.

Driving growth: We seek to provide best-in-class online grocery proposition, with excellent customer service and value for money

We focus on offering value for money to customers and leveraging the increased appeal of online grocery shopping to an expanding demographic of the U.K. population. This includes the use of loyalty programmes such as the *Ocado Smart Pass* service (which is designed to reduce average delivery charges to the customer and through which over half of all of our retail sales are conducted), and price initiatives such as *Tesco Price Match* and *Low Price Promise*. The expansion of the Ocado own-label range and our dedicated specialist product sites is intended to allow us to increase the range of products at affordable price points. We believe that we are able to compete on price with supermarkets due to our efficient operations and our proprietary technology, both of which continue to improve. This is demonstrated by our EBITDA margins, which we believe are superior to the "Big 4" supermarkets, Tesco, Asda, Sainsbury's and Morrisons.

We focus on improving every element of the retail customer experience through the quality of our service and our user interfaces, and strive to improve our user interfaces continuously with the goal of ensuring an increasingly personalised and easy-to-use shopping experience, including the onward development of our mobile applications. Our user interfaces are designed to allow our customers to execute their orders easily, for example through predictive suggestions (by proposing personalised recommendations or frequently-purchased item pairs) or allowing mobile app users to place orders when offline, which are then included in the final order sent for purchasing. Consequently, customers purchase an average of approximately 50 items per order, demonstrating the convenience of our offering.

We drive customer retention by providing excellent customer service, demonstrated by our high levels of punctuality (with approximately 95% of deliveries occurring within the allocated 60 minute time slot) and accuracy (with approximately 99% of orders arriving exactly as ordered). Combined with our product offering, we believe that our service levels help to encourage our active customers to become routine customers (shopping more than four times in the last twelve weeks), helping to drive our overall growth.

Driving growth: We seek to license our proprietary intellectual property to partners in order to monetize our investment

We are seeking to contract to provide our proprietary software and technology to third parties. We have expertise in integrating systems to apply to grocery distribution, which can be used by other retailers' online businesses (as we have done with Morrisons). By careful delivery of these arrangements, we will be able to monetize our investment while also maintaining our competitive advantage in the U.K. grocery retail space.

Maximising efficiency: We continue to develop our operational and capital efficiency to enable us to compete aggressively at attractive margins

Our strategy is to deliver growth efficiently, by leveraging our operational expertise and systems to run the business profitably, and enabling us to grow utilising capital carefully. This may include increasing use of robotics and/or automated guided vehicles to lower the cost of our operations.

Maximising efficiency: We apply our expertise in online grocery and our unique systems to drive operational excellence

Without compromising our customer offering or value for money proposition, we strive to increase the efficiency and effectiveness of our operations from our Webshops, mobile applications and the CFCs to customer delivery by continuing to improve our technology, systems and training.

We are focused on increasing CFC productivity (measured as UPH) by improving our technology mix through upgrading the existing equipment at the CFCs and increasing automation of the picking process through the use of our proprietary MHE and continuing the development of more intelligent IT algorithms and code to increase the efficiency of existing CFC operations.

Similarly, delivery productivity is measured by average deliveries per van per week ("DPV per week"). We are focused on increasing delivery productivity through increased customer density (thereby reducing time spent driving between customers), and continuing the development of more intelligent IT algorithms and code to allow efficient allocation of driver resources and optimised route planning.

Maximising efficiency: We seek to improve our capital efficiency to reduce investment required for growth

Our strategy is to improve our capital efficiency, seeking to continuously lower the cost of investment required for online grocery activities in order to support growth in our own retail business, as well those of our solutions partners. We have implemented our new proprietary MHE at our Andover CFC and continue to do so there and at our forthcoming Erith CFC. Our proprietary technology solution is modular (can be built to different sizes) and scalable (can be increased in size within a site) and we expect future iterations to be faster to deploy (shorter build and commissioning lead times), all of which allow for reduced up-front capital commitment.

We can also offer our proprietary technology to partners (as we have done with Morrisons) and to overseas CFC customers (as we have done with a European regional retailer), and also provide them with the software necessary to fulfil online orders from their own retail stores or dedicated manual pick warehouses. Morrisons will benefit from the use of our proprietary MHE at our forthcoming Erith CFC.

Recent Developments

Relationship with a European regional retailer

On 5 June 2017, we announced we had entered into an agreement with a European regional retailer (the "European Retailer") to use our Solutions Business technology. The partner wishes its identity to remain confidential prior to the launch of its online business to retain its competitive advantage. Under this agreement, we will provide certain Solutions Business software, know-how and support services required by the European Retailer to create an efficient and intelligent online grocery business, with orders initially fulfilled from a manually operated centralised warehouse. There is no fixed term to the agreement. It is expected that the European Retailer will be ready to launch its online business powered by our Solutions Business technology in 2017. The partner will pay an up-front fee to us for access to our Solutions Business technology, together with ongoing fees that are based on the volume of products sold online. We expect the arrangement to be earnings and cash neutral in the current and 2018 financial years, and increasingly accretive thereafter.

The Financing Transactions

Certain companies in the Group have entered into the Amended and Restated Senior Credit Facility Agreement with commitments of £100 million. The Amended and Restated Senior Credit Facility will become effective upon the satisfaction of certain customary conditions, including the issue of the Notes, which we expect to occur on or around the Issue Date. We refer to the amendment and refinancing of our Revolving Credit Facility and the issuance of the Notes as the "Financing Transactions."

Sources and Uses

The estimated sources and uses of the funds relating to the Financing Transactions are shown in the table below. Actual amounts may vary from estimated amounts depending on several factors, including differences between estimated and actual fees and expenses, differences in exchange rates and interim debt repayments.

Sources	(£ million)	Uses	(£ million)
Notes offered hereby[1]	250.0	General corporate purposes[2]	144.3
Amended and Restated Senior Credit Facility (£100 million in commitments)	—	Revolving Credit Facility repayment[3]	87.5
		Repayment of finance leases[4]	3.1
		Repayment of certain other loans[5]	6.9
		Estimated fees & expenses[6]	8.2
Total Sources	250.0	Total Uses	250.0

(1) Represents the aggregate principal amount of Notes offered hereby. Assumes that the Notes will be issued at par.

(2) Expected to include, but will not be limited to, the expansion of capacity in our Andover CFC, Erith CFC and potential future CFCs, and the further development of our platform, fulfilment and technology capabilities. The Company intends to consider the early termination of certain finance leases using the proceeds of the offering of the Notes but there is no assurance that such transactions will occur.

(3) As at 9 June 2017, Ocado Holdings Limited had drawings of £87.5 million under the Revolving Credit Facility. Drawings under the Revolving Credit Facility may fluctuate from time to time to meet the Group's working capital requirements, and the actual amount to be repaid under the Revolving Credit Facility may vary from the amount shown above depending on several factors, including the closing date of the Offering, the outstanding amounts under the Revolving Credit Facility on such date, the issue price of the Notes and the actual fees and expenses incurred in connection with the Financing Transactions.

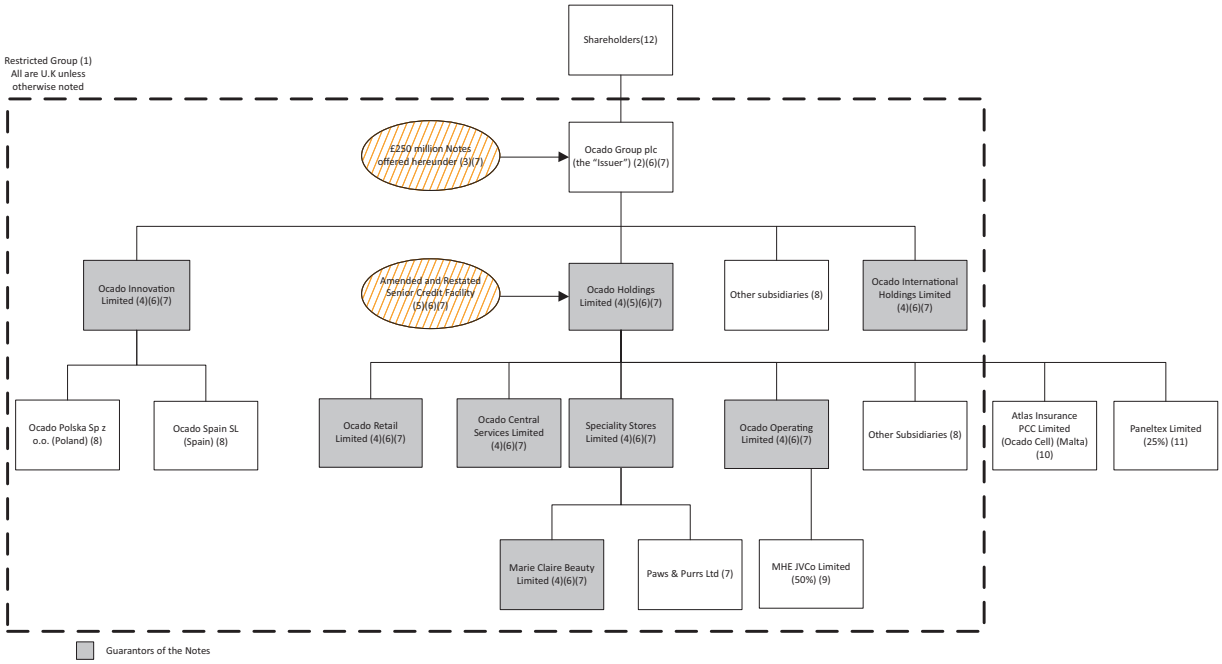
(4) As at 30 April 2017, the Issuer and its subsidiaries had total obligations of £156.6 million under outstanding finance leases (including £108.1 million of MHE JVCo lease obligations). Other finance lease amounts principally relate to vehicle leases. As part of its balance sheet management, the Group is repaying £3.1 million of its finance lease obligations (not relating to MHE JVCo lease obligations).

(5) As at 30 April 2017, the Issuer and its subsidiaries had borrowings under certain other loans of £6.9 million, including £6.6 million outstanding under its existing sterling term loan facility, secured by freehold property. All such loans are being repaid.

(6) Reflects estimated commissions, fees and expenses in connection with the Financing Transactions, including Initial Purchasers fees, professional fees and expenses and other transaction costs in relation to the offering of the Notes.

SUMMARY CORPORATE AND FINANCING STRUCTURE

The following diagram summarises our corporate structure and shows our principal outstanding financing arrangements after giving effect to the Financial Transactions:



(1) The Restricted Group represents entities that will be subject to the covenants in the Indenture. See "*Description of the Notes".*

(2) Ocado Group plc, a company incorporated under the laws of England and Wales and listed on the London Stock Exchange, is the ultimate holding company for the Group and will issue the Notes. The Issuer represents, after taking intercompany eliminations into account, £(0.1) million, or (0.1)%, of our Adjusted EBITDA and 11.9 million, or 4.5%, of our net assets for the 52 weeks ended, or as at, 27 November 2016.

(3) The Issuer will be a guarantor under the Amended and Restated Senior Credit Facility. The Notes are the Issuer's senior secured obligations and will rank *pari passu* in right of payment with all of the Issuer's existing and future debt that is not subordinated in right of payment to the Notes, including debt under the Amended and Restated Senior Credit Facility and rank senior in right of payment to any existing and future debt of the Issuer that is expressly subordinated in right of payment to the Notes. The Notes will be structurally subordinated to any existing and future debt and other obligations of the Issuer's non-Guarantor subsidiaries and will be effectively subordinated to any existing and future debt of the Issuer or its subsidiaries that is secured by Liens on property or assets that do not secure the Notes, to the extent of the value of such property or assets so securing such debt, including capitalised leases at the Issuer and its subsidiaries on vehicles, machinery and other property and assets. See "*Capitalisation*", "*Risk Factors—Risks Relating to Our Debt Profile, Structure, the Notes and the Collateral—The Issuer and certain of the Guarantors are holding companies that have no revenue generating operations of their own and will depend on cash from the operating companies of the Group to be able to make payments on the Notes or the Guarantees*" and "*Risk Factors—Risks Relating to Our Debt Profile, Structure, the Notes and the Collateral—The Notes will be structurally subordinated to the liabilities of non-guarantor subsidiaries and effectively subordinated to liabilities that are secured on assets that do not secure the Notes*".

(4) The Notes will initially be guaranteed on a senior secured basis by Ocado Holdings Limited, Ocado Retail Limited, Ocado Operating Limited, Ocado Central Services Limited, Ocado Innovation Limited, Ocado International Holdings Limited, Marie Claire Beauty Limited and Speciality Stores Limited, all limited companies incorporated under the laws of England and Wales. Not all of our subsidiaries will guarantee the Notes. Each Guarantee is a senior secured obligation of the Guarantor that granted such Guarantee and will rank *pari passu* in right of payment with all of such Guarantor's existing and future debt that is not subordinated in right of payment to such Guarantee, including the guarantees under the Amended and Restated Senior Credit Facility and rank senior in right of payment to any existing and future debt of such Guarantor that is expressly subordinated in right of payment to such Guarantee;

Each of the Guarantees will be structurally subordinated to any existing and future debt and other obligations of the Issuer's non-Guarantor subsidiaries and will be effectively subordinated to any existing and future debt of such Guarantor that is secured by Liens on property or assets that do not secure such Guarantee, to the extent of the

value of such property or assets so securing such debt, including capitalised leases on vehicles, machinery and other property and assets. See "*Risk Factors—Risks Relating to Our Debt Profile, Structure, the Notes and the Collateral—The Notes will be structurally subordinated to the liabilities of non-guarantor subsidiaries and effectively subordinated to liabilities that are secured on assets that do not secure the Notes*".

The Guarantors represented, after taking intercompany eliminations into account, £88.1 million, or 115.3%, of our Adjusted EBITDA and £248.1 million, or 94.6%, of our net assets for the 52 weeks ended, or as at, 27 November 2016.

(5) Certain companies in the Group have entered into the Amended and Restated Senior Credit Facility Agreement with commitments of £100 million (which will replace our existing Revolving Credit Facility) and the Amended and Restated Senior Credit Facility Agreement will become effective upon the satisfaction of certain customary conditions, including the issue of the Notes, which we expect to occur on or around the Issue Date. Ocado Holdings Limited will be the borrower under the Amended and Restated Senior Credit Facility. The Amended and Restated Senior Credit Facility will, once it is available for utilisation, be a revolving facility and provide for £100 million of borrowings and the issuance of guarantees and letters of credit. On or about the Issue Date, we expect to repay all of the borrowings under our Revolving Credit Facility using part of the proceeds of this Offering. See "*Description of Other Debt—Amended and Restated Senior Credit Facility*" and "*Use of Proceeds.*"

(6) Ocado Holdings Limited's obligations under the Amended and Restated Senior Credit Facility will be guaranteed on a senior secured basis by the Issuer and each of the Guarantors of the Notes. See "*Description of Other Debt—Amended and Restated Senior Credit Facility.*"

(7) From the Issue Date, the Notes and obligations under the Amended and Restated Senior Credit Facility will be secured, subject to the terms of the security document, on a first-priority basis (subject to the Intercreditor Agreement) by the Collateral, which will consist of English-law share pledges over all of the issued share capital of each Guarantor (except for two class A ordinary shares of Marie Claire Beauty Limited that are not held by the Issuer or any Restricted Subsidiary). See "*Description of the Notes—Security*".

(8) As of the Issue Date, our direct and indirect non-guarantor subsidiaries did not have any material financial debt outstanding. The non-guarantor subsidiaries represented, after taking intercompany eliminations into account, £(11.9) million, or (15.4)%, of our Adjusted EBITDA and £2.4 million, or 0.9%, of our net assets for the 52 weeks ended, or as at, 27 November 2016.

(9) We hold a 50% interest in MHE JVCo Limited, which is equity accounted for the purposes of IFRS. MHE JVCo will be a Restricted Subsidiary on the Issue Date under the Indenture, and its financials will be consolidated as part of the financial definitions and ratios utilised therein as if it were a subsidiary of the Issuer.

(10) The Ocado cell in Atlas Insurance PCC Limited, a Maltese captive insurance entity, is not a Restricted Subsidiary.

(11) Ocado Operating Limited holds a 25% interest in Paneltex Limited, our sole provider of delivery van customisation services.

(12) See "*Principal Shareholders and Related Party Transactions.*"

See "*Use of Proceeds*", "*Capitalisation*", "*Risk Factors*", "*Description of Other Debt*" and "*Description of the Notes*" for further information.

OVERVIEW OF THE OFFERING

The overview below describes the principal terms of the Notes and the Guarantees. Certain of the terms and conditions described below are subject to important limitations and exceptions. The section entitled "Description of the Notes" of this Offering Memorandum contains a more detailed description of the terms and conditions of the Notes and the Guarantees, including definitions of certain terms used in this overview.

Issuer	Ocado Group plc (the "Issuer").
Guarantors	Ocado Holdings Limited, Ocado Retail Limited, Ocado Operating Limited, Ocado Central Services Limited, Ocado Innovation Limited, Ocado International Holdings Limited, Marie Claire Beauty Limited and Speciality Stores Limited (the "Guarantors").
Notes Offered	£250,000,000 aggregate principal amount of 4.00% Senior Secured Notes due 2024 (the "Notes").
Issue Date	On or about 19 June 2017 (the "Issue Date").
Issue Price	100.0% plus accrued interest from the Issue Date.
Maturity Date	15 June 2024.
Interest Rate	4.000% per annum.
Interest Payment Dates	Interest will be payable semi-annually in arrears on 15 June and 15 December of each year, commencing on 15 December 2017. Interest will accrue from the Issue Date.
Denomination of Notes	The Issuer will issue the Notes in minimum denominations of £100,000 in principal amount and integral multiples of £1,000 in excess thereof.
Security	On the Issue Date, the Notes will be secured by charges over all of the issued share capital of each Guarantor, except for two class A ordinary shares of Marie Claire Beauty Limited that are not held by the Issuer or its restricted subsidiaries (the "Collateral"). The Collateral will also secure the liabilities under the Finance Documents (as defined in the Amended and Restated Senior Credit Facility) and may secure certain hedging obligations and certain other future debt. Any proceeds received upon any enforcement over any Collateral will be applied *pro rata* in payment of all liabilities in respect of obligations under the Finance Documents (as defined in the Amended and Restated Senior Credit Facility), such hedging obligations (if any), the indenture governing the Notes (the "Indenture"), the Notes and any other debt of the Issuer or its restricted subsidiaries permitted to be incurred and secured by the Collateral on a *pari passu* basis pursuant to the Indenture, the Amended and Restated Senior Credit Facility and the Intercreditor Agreement. See "*Description of the Notes—Security*".
Guarantees	The Notes will be guaranteed, on a joint and several basis, fully and unconditionally by the Guarantors. A Guarantee may be released in the event of certain sales or disposals of the relevant Guarantor, in the event of certain enforcement actions

under the Intercreditor Agreement and under certain other circumstances. See "*Description of the Notes—Release of the Guarantees*."

Form of Notes . . . . . The Notes will be represented on issue by one or more Global Notes which will be deposited with a common depositary for Euroclear and Clearstream and registered in the name of the nominee for the common depositary. If definitive registered notes are issued in respect of the Notes, they will be issued only in minimum denominations of £100,000 in principal amount and integral multiples of £1,000 in excess thereof.

Interests in the Global Note will be exchangeable for definitive registered notes only in certain limited circumstances. See "*Book- Entry; Delivery and Form.*"

Ranking of the Notes and the Guarantees . . . . . The Notes:

- will be senior secured obligations of the Issuer;
- will be secured on a first-priority basis;
- will rank *pari passu* in right of payment with any existing and future debt of the Issuer that is not subordinated in right of payment to the Notes, including the Issuer's obligations in respect of the Amended and Restated Senior Credit Facility as guarantor thereunder;
- will rank senior in right of payment to any existing and any future debt of the Issuer that is expressly subordinated in right of payment to the Notes;
- will be effectively senior to any existing and future unsecured debt of the Issuer to the extent of the value of the Collateral;
- will be effectively subordinated to any existing and future debt of the Issuer or its subsidiaries that is secured by Liens on property or assets that do not secure the Notes, to the extent of the value of such property or assets so securing such debt, including capitalised leases on vehicles, machinery and other property and assets;
- will be guaranteed on a senior basis by the Guarantors, which guarantees may be subject to the guarantee limitations as described in "*Certain Insolvency and Enforceability Considerations*"; and
- will be structurally subordinated to any existing and future debt of subsidiaries of the Issuer that are not providing Guarantees.

The Notes will be guaranteed by the Guarantors on the Issue Date (the "Guarantees"), and may in the future be guaranteed by other Restricted Subsidiaries of the Issuer.

The Guarantees:

- will be senior secured obligations of the relevant Guarantor;
- will be secured on a first-priority basis;
- will rank *pari passu* in right of payment with any existing and future debt of the relevant Guarantor that is not subordinated

in right of payment to the relevant Guarantee, including obligations owed to lenders under the Amended and Restated Senior Credit Facility;

- will rank senior in right of payment to any existing and any future debt of the relevant Guarantor that is expressly subordinated in right of payment to the relevant Guarantee;
- will be effectively senior in right of payment to any existing or future unsecured obligations of the relevant Guarantor, to the extent of the value of the Collateral that is available to satisfy the obligations under the relevant Guarantee; and
- will be effectively subordinated to any existing and future debt of the relevant Guarantor that is secured by Liens on property or assets that do not secure such Guarantee, to the extent of the value of such property or assets so securing such debt, including capitalised leases on such vehicles, machinery or other property assets.

The Guarantees may be subject to guarantee limitations as described in "*Certain Insolvency and Enforceability Considerations*." The Guarantees will be subject to release under certain circumstances. See "*Description of the Notes—Release of the Guarantees*."

Intercreditor Agreement . . . . . On the Issue Date, the Trustee, the Security Agent and certain other parties will enter into an intercreditor agreement (the "Intercreditor Agreement"), which will govern the relative rights of the obligors and creditors under certain of our existing and future financing arrangements (including the Amended and Restated Senior Credit Facility, the Notes and certain hedging obligations). Among other things, with respect to such debt, the Intercreditor Agreement will regulate its relative priority, the ranking of security interests from which it benefits, the timing of payments, enforcement procedures and release of guarantees and security interests as well as providing for the subordination of certain of our debt and turnover and redistribution provisions. For more information, see "*Description of Other Debt—Intercreditor Agreement*".

Use of Proceeds . . . . . We intend to use the proceeds of the Offering to repay amounts of debt outstanding under our Revolving Credit Facility, to repay certain other debt and for general corporate purposes that include, but are not limited to the expansion of capacity in our Andover CFC, Erith CFC and potential future CFCs, for further development of our platform, fulfilment and technology capabilities, and to pay certain fees, expenses and other costs related to the Financing Transactions. The Company intends to consider the early termination of certain finance leases using the proceeds of the offering of the Notes but there is no assurance that such transactions will occur. See "*Use of Proceeds*."

Optional Redemption . . . . . At any time prior to 15 June 2020, we may redeem up to 40% of the aggregate principal amount of the Notes using the net cash proceeds of certain equity offerings, at the redemption price of 104.000% of the principal amount of the Notes redeemed, plus accrued and unpaid interest and additional amounts, if any, to the redemption date. See "*Description of the Notes—Optional Redemption—Optional Redemption prior to 15 June 2020 upon Equity Offering*."

At any time prior to 15 June 2020, we may redeem during each twelve-month period commencing on the Issue Date up to 10% of the aggregate principal amount of the Notes originally issued (including the aggregate principal amount of any Additional Notes) at a redemption price equal to 103% of the principal amount thereof, plus accrued and unpaid interest, if any to the applicable redemption date.

At any time prior to 15 June 2020, we may redeem some or all of the Notes at a redemption price equal to 100% of the principal amount of the Notes redeemed, plus, in each case, accrued and unpaid interest and additional amounts, if any, to the applicable redemption date plus the applicable "make whole" premium. See "*Description of the Notes—Optional Redemption—Optional Redemption prior to 15 June 2020*."

At any time on or after 15 June 2020, we may redeem some or all of the Notes at the redemption prices set forth in "*Description of the Notes—Optional Redemption—Optional Redemption on or after 15 June 2020*."

Optional Tax Redemption . . . . . If certain changes or amendments in the tax laws of any Relevant Taxing Jurisdiction (as defined in the Description of the Notes) become effective on or after the date of the Indenture and, as a result, the Issuer or any Guarantor is or would on the next payment date be required to pay any Additional Amounts (as defined in the Description of the Notes), the Issuer may redeem the Notes in whole, but not in part, at any time, at a redemption price of 100% of the principal amount, plus accrued and unpaid interest and Additional Amounts, if any, to the date of redemption. See "*Description of the Notes—Redemption Upon Changes in Withholding Taxes*".

Additional Amounts . . . . . Any payments made by the Issuer or any Guarantor under or with respect to the Notes or any Guarantee will be made without withholding or deduction for taxes imposed or levied by any Relevant Taxing Jurisdiction (as defined in the Description of the Notes), unless required by law. If withholding or deduction for such taxes is required to be made with respect to a payment on the Notes or the Guarantees, subject to certain exceptions, the Issuer or the relevant Guarantor, as the case may be, will pay such additional amounts as may be necessary so that the net amount received by the holders of the Notes after such withholding or deduction is not less than the amount that they would have received in the absence of such withholding or deduction. See "*Description of the Notes—Additional Amounts*".

Change of Control . . . . . Upon the occurrence of certain events constituting a "change of control" (as defined for purposes of the Notes), holders of the Notes will have the right to require the Issuer to repurchase all or part of the Notes at a purchase price in cash equal to 101% of the aggregate principal amount of the Notes, plus accrued and unpaid interest and additional amounts, if any, to the repurchase date. See "*Description of the Notes—Certain Covenants—Change of Control*".

Certain Covenants	The Indenture governing the Notes will contain covenants that will, among other things, limit our ability and the ability of our restricted subsidiaries to, among other things: • incur additional debt; • create liens; • pay dividends, redeem capital stock or make certain other restricted payments or investments; • enter into agreements that restrict dividends from restricted subsidiaries; • sell assets, including capital stock of restricted subsidiaries; • impair the security interests for the benefit of the holders of the Notes; • engage in transactions with affiliates; and • effect a consolidation or merger. These covenants are subject to a number of important qualifications and exceptions and certain of them will be suspended if and when, and for so long as, the Notes are rated investment grade. For more details see "*Description of the Notes—Certain Covenants*".
Transfer Restrictions	The Notes and the Guarantees have not been, and will not be, registered under the Securities Act or the securities laws of any other jurisdiction and may not be offered or sold, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. We have not agreed to, or otherwise undertaken to, register the Notes (including by way of an exchange offer).
No Established Market	The Notes will be new securities for which there is currently no established trading market. Although the Initial Purchasers have informed us that they intend to make a market in the Notes, they are not obligated to do so and they may discontinue market-making at any time without notice. Accordingly, we cannot assure you that a liquid market for the Notes will develop or be maintained.
Listing	Application has been made to the Irish Stock Exchange (the "Exchange") for the Notes to be admitted to the Official List and trading on the Global Exchange Market which is the exchange regulated market of the Exchange. There can be no assurance that the Notes will be listed on the Official List of the Exchange, that such permission to deal in the Notes will be granted or that such listing will be maintained.
Governing Law of the Indenture, the Notes and the Guarantees	New York.
Governing Law of the Intercreditor Agreement	English.
Governing Law for the Security Documents relating to the Collateral	English.

Trustee	HSBC Corporate Trustee Company (UK) Limited.
Security Agent	HSBC Corporate Trustee Company (UK) Limited.
Paying Agent	HSBC Bank plc.
Transfer Agent and Registrar	HSBC Bank plc.
Listing Sponsor	Arthur Cox Listing Services Limited.
Risk Factors	Investing in the Notes involves a high degree of risk. See "*Risk Factors*" for a description of certain of the risks you should carefully consider before making a decision whether to invest in the Notes.

SUMMARY FINANCIAL AND OTHER INFORMATION

Unless stated otherwise, all of our financial information in this summary for each of the 52 weeks ended 30 November 2014 ("FYE 2014"), 29 November 2015 ("FYE 2015") and 27 November 2016 ("FYE 2016") has been derived from audited consolidated financial statements of the Group for the periods presented in this Offering Memorandum.

Unless stated otherwise, none of the financial information in this summary relating to the Group for P5 2016 or P5 2017 has been audited, nor has any financial information not relating to the Group.

Certain figures contained in this summary, including financial information, have been subject to rounding adjustments. Accordingly, in certain instances (i) the sum or percentage change of such numbers may not conform exactly with the total figure given; and (ii) the sum of the numbers in a column or a row in certain tables may not conform exactly with the total figure given for that column or row.

This Offering Memorandum includes financial information derived from our audited consolidated financial statements as of and for each of the 52 weeks ended 30 November 2014 ("FYE 2014"), 29 November 2015 ("FYE 2015") and 27 November 2016 ("FYE 2016") and from our unaudited condensed consolidated financial statements as of and for the 22 weeks ended 30 April 2017 ("P5 2017") (containing comparatives for the 20 weeks ended 17 April 2016 ("P5 2016")). This Offering Memorandum also includes certain financial information relating to our Key Performance Indicators derived from our audited consolidated financial statements as of and for each of the 52 weeks ended 1 December 2013 ("FYE 2013") and the 53 weeks ended 2 December 2012 ("FYE 2012").

It is important to note for comparability purposes that P5 2017 had 22 weeks and P5 2016 had 20 weeks. This is because in November 2016 Ocado decided for financial years from FYE 2017 onwards to move from a financial calendar comprising 13 four weekly accounting periods to a financial calendar of 12 accounting periods where each quarter comprises three periods of 5 weeks, 4 weeks and 4 weeks. Additionally, FYE 2012 had 53 trading weeks while FYE 2013 through FYE 2016 each had 52 trading weeks. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors affecting Comparability".

Our consolidated financial statements for FYE 2014, FYE 2015 and FYE 2016 and our condensed consolidated financial statements for P5 2016 and P5 2017 appear in the F-pages of this Offering Memorandum. Our consolidated financial statements for FYE 2014, FYE 2015 and FYE 2016 should be read in conjunction with the relevant reports of our independent auditor as such reports relate to our audited consolidated financial statements as of and for FYE 2014, FYE 2015 and FYE 2016.

Also included below is certain unaudited operating information which has been derived from information extracted from management accounts and internal financial and operating reporting systems and not from the consolidated financial statements included in this Offering Memorandum for the periods described.

The summary financial and unaudited operating data set out below should also be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial information included elsewhere in this Offering Memorandum.

Consolidated Income Statement Information

The table below sets out our summary consolidated income statement data for the Group for P5 2017, P5 2016, FYE 2016, FYE 2015 and FYE 2014:

	For the 22 weeks ended 30 April 2017	For the 20 weeks ended 17 April 2016	FYE 2016	FYE 2015	FYE 2014
	(£ million)				
Revenue	**600.5**	**481.7**	**1,271.0**	**1,107.6**	**948.9**
Cost of sales	(391.5)	(317.6)	(835.7)	(732.5)	(636.0)
Gross profit	**209.0**	**164.1**	**435.3**	**375.1**	**312.9**
Other income	20.8	18.4	52.9	49.0	39.4
Distribution costs	(175.0)	(136.9)	(365.7)	(309.4)	(253.1)
Administrative expenses	(45.1)	(38.0)	(100.6)	(95.6)	(85.0)
Operating profit before result from joint venture and exceptional items	**9.7**	**7.6**	**21.9**	**19.1**	**14.2**
Share of result from joint venture	0.6	0.6	2.1	2.3	2.4
Exceptional items	(0.1)	—	(2.4)	—	(0.3)
Operating profit	**10.2**	**8.2**	**21.6**	**21.4**	**16.3**
Finance income	0.2	0.1	0.2	0.2	0.4
Finance costs	(3.7)	(3.7)	(9.7)	(9.7)	(9.5)
Profit before tax	**6.7**	**4.6**	**12.1**	**11.9**	**7.2**
Taxation	—	0.2	(0.1)	(0.1)	0.1
Profit for the period	**6.7**	**4.8**	**12.0**	**11.8**	**7.3**

Consolidated Balance Sheet Information

The table below sets out our consolidated balance sheet data for the Group as at the dates indicated.

	As at			
	30 April 2017	27 November 2016	29 November 2015	30 November 2014
	(£ million)			
Non-current assets				
Intangible assets	93.4	79.7	52.9	38.4
Property, plant and equipment	418.2	397.3	327.3	275.2
Deferred tax asset	14.3	14.2	10.0	9.4
Financial assets	0.4	2.6	2.9	0.4
Investment in joint ventures	57.7	57.1	62.0	67.8
	584.0	550.9	455.1	391.2
Current assets				
Inventories	33.5	39.1	29.9	27.6
Trade and other receivables	73.8	59.4	60.8	43.1
Derivative financial instruments	—	0.3	—	—
Cash and cash equivalents	41.9	50.9	45.8	76.3
	149.2	149.7	136.5	147.0
Total assets	733.2	700.6	591.6	538.2
Current liabilities				
Trade and other payables	(196.9)	(205.6)	(164.4)	(136.5)
Borrowings	(86.5)	(52.9)	(1.6)	(4.4)
Obligations under finance leases	(35.8)	(29.8)	(26.5)	(26.5)
Derivative financial instruments	(0.5)	(0.2)	(0.7)	(0.2)
Provisions	(0.3)	(2.4)	(2.8)	(0.4)
	(320.0)	(290.9)	(196.0)	(168.0)
Net current liabilities	**(170.8)**	**(141.2)**	**(59.5)**	**(21.0)**

	As at			
	30 April 2017	27 November 2016	29 November 2015	30 November 2014
	(£ million)			
Non-current liabilities				
Borrowings	(5.6)	(6.1)	(7.7)	(2.3)
Obligations under finance leases	(120.8)	(127.0)	(137.0)	(142.5)
Provisions	(8.5)	(7.3)	(6.3)	(5.2)
Deferred tax liability	(6.8)	(6.9)	(2.7)	(2.0)
	(141.7)	(147.3)	(153.7)	(152.0)
Net assets	**271.5**	**262.4**	**241.9**	**218.2**
Equity				
Share capital	12.6	12.6	12.6	12.5
Share premium	257.2	256.9	258.7	255.1
Treasury shares reserve	(48.0)	(48.0)	(50.9)	(51.8)
Reverse acquisition reserve	(116.2)	(116.2)	(116.2)	(116.2)
Other reserves	(0.1)	0.2	(0.8)	(0.3)
Retained earnings	166.0	156.9	138.5	118.9
Total equity	**271.5**	**262.4**	**241.9**	**218.2**

Summary Consolidated Cash Flow Statement Information

The table below sets out our summarised consolidated cash flow statement data for the Group for P5 2017, P5 2016, FYE 2016, FYE 2015 and FYE 2014:

	For the 22 weeks ended 30 April 2017	For the 20 weeks ended 17 April 2016	FYE 2016	FYE 2015	FYE 2014
	(£ million)				
Net cash flows from operating activities	**37.5**	**49.2**	**96.9**	**82.8**	**75.5**
Net cash flows from investing activities	**(75.1)**	**(37.7)**	**(115.3)**	**(90.8)**	**(78.3)**
Net cash flows from financing activities	**28.6**	**4.2**	**23.5**	**(22.5)**	**(31.4)**
Net increase/(decrease) in cash and cash equivalents	**(9.0)**	**15.7**	**5.1**	**(30.5)**	**(34.2)**
Cash and cash equivalents at the beginning of the period	50.9	45.8	45.8	76.3	110.5
Cash and cash equivalents at the end of the period	**41.9**	**61.5**	**50.9**	**45.8**	**76.3**

Operating Key Performance Indicators

	For the 22 weeks ended 30 April 2017	For the 20 weeks ended 17 April 2016	FYE 2016	FYE 2015	FYE 2014	FYE 2013	FYE 2012
Average orders per week[1]	258,000	222,000	230,000	195,000	167,000	143,000	123,000
Average order size (£)[2]	108.81	110.60	108.10	111.15	112.25	113.53	112.13
CFC efficiency (UPH)[3]	164	158	160	155	145	135	121
Average deliveries per van per week (DPV)[4]	178	173	176	166	163	160	152
Average number of operational staff (full-time equivalent)	10,324	9,131	9,308	7,453	6,001	4,967	4,595
Product waste (%)[5]	0.7	0.8	0.7	0.7	0.8	1.0	0.7

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

(1) Average orders per week is a measure of the order growth in our retail businesses, showing the number of orders generated. Average orders per week refers to Ocado.com orders and includes standalone orders for

Fetch.co.uk, Sizzle.co.uk and Fabled.com for periods where these destination sites were in operation. Average orders per week is calculated after cancelled orders are deducted.

(2) Average order size is a measure of the size of the average shopping basket and is used to monitor the size of average orders. Average order size refers to Ocado.com orders and excludes all sales for Fetch.co.uk, Sizzle.co.uk and Fabled.com for periods where these destination sites were in operation. Average order size is calculated after cancelled orders are deducted.

(3) CFC efficiency is measured using the units per labour hour ("UPH") efficiency measure and is a measure of the operational efficiency of mature CFCs. CFC efficiency (UPH) is measured as the number of units processed (inbound and outbound) from the CFC per productive hour worked by operational personnel. A CFC is considered mature when it has been open for 12 months by the start of the half year reporting period. This measure includes our Hatfield and Dordon CFCs and excludes the Andover CFC which we opened at the end of FYE 2016.

(4) Average deliveries per van per week (DPV) measures efficiency of our service delivery operation through van utilisation. It is calculated as the number of deliveries completed by all vans per week divided by the total number of vans in our fleet. Average deliveries per van per week (DPV) does not include Morrisons deliveries and vans.

(5) Product waste (%) measures efficiency of our operations in terms of waste minimisation and allows the accuracy of buying forecasts to be monitored. Product waste is defined as cost of goods purged for having passed Ocado's "use by" life guarantee. Product waste (%) is calculated as the cost of product waste as a percentage of Gross Sales (Retail).

Other Financial and *Pro Forma* Data

	As at and for the						
	22 weeks ended 30 April 2017[10]	20 weeks ended 17 April 2016	FYE 2016	FYE 2015	FYE 2014	FYE 2013	FYE 2012
	(£ million, except for ratios)						
Group EBITDA[1]	37.6	31.2	84.3	81.5	71.6	45.8	34.5
Adjusted EBITDA[1]	36.1	29.0	76.9	75.8	64.7	45.2	35.4
Adjusted Operating Profit[2]	12.4	10.6	28.3	26.9	18.6	4.3	6.3
Capital Expenditures (including share of MHE JVCo)[3]	63.2	42.7	156.9	126.5	98.1	76.3	124.5
Cash Available for Debt Service and Growth[4]	33.6	41.8	82.1	61.6	65.6	62.3	35.6
External Net (Debt)/Cash[7]	(98.7)	(5.8)	(56.2)	(7.5)	31.4	61.8	(55.2)
Cash and cash equivalents[7]	41.9	61.5	50.9	45.8	76.3	110.5	89.6
Gross Sales (Group)[5]	655.2	524.9	1,386.7	1,204.4	1,026.5	852.4	731.9
Gross Sales (Retail)[5]	600.4	481.4	1,267.4	1,115.7	972.4	843.0	731.9
Revenue (Retail)[6]	554.8	445.4	1,171.6	1,033.7	903.8	784.2	678.6
Underlying distribution costs[14]	120.4	93.1	247.5	216.6	193.3	168.7	150.4
Underlying administrative expenses[14]	35.1	29.8	78.8	73.4	62.1	54.7	39.6
Pro Forma External Net Debt[7][8]	(98.7)	—	—	—	—	—	—
Pro Forma Cash and Cash Equivalents[9]	186.2	—	—	—	—	—	—
Pro Forma Net Interest Expense (FYE 2016)[10][11]	20.4	—	—	—	—	—	—
Pro Forma Leverage Ratio (Adjusted EBITDA FYE 2016)[11][12]	1.3x	—	—	—	—	—	—
Pro Forma Net Interest Coverage Ratio (FYE 2016)[11][13]	3.8x	—	—	—	—	—	—

(1) Group EBITDA is defined as the Profit (Loss) for the period before depreciation, amortisation, impairment, net finance expense, taxation and exceptional items. EBITDA based measures are common measures used by investors and analysts to evaluate the operating financial performance of companies. Adjusted EBITDA is defined as the Profit (Loss) for the period before depreciation, amortisation, impairment, net finance expense, taxation, exceptional items, share-based management incentive charges and the impact of our joint venture investment. Adjusted EBITDA is a common measure used by investors and analysts to evaluate the operating financial performance of companies.

We consider Group EBITDA and Adjusted EBITDA to be useful measures of our operating performance because they approximate the underlying operating cash flow. Group EBITDA does this by eliminating depreciation, amortisation, impairment and exceptional items. Adjusted EBITDA does this by eliminating depreciation, amortisation, impairment, exceptional items, share-based management incentive charges and

the impact of our joint venture investment. Group EBITDA and Adjusted EBITDA are not direct measures of our liquidity, which is shown by our cash flow statement, and needs to be considered in the context of our financial commitments. See "*Presentation of Financial and Other Information—Non-GAAP Measures/ Alternative Performance Measures*".

A reconciliation of Profit (Loss) for the period to Group EBITDA and Adjusted EBITDA is set out below.

	For the 22 weeks ended 30 April 2017	For the 20 weeks ended 17 April 2016	FYE 2016	FYE 2015	FYE 2014	FYE 2013	FYE 2012
			(£ million)				
Profit/(loss) for the period	6.7	4.8	12.0	11.8	7.3	(12.5)	(2.4)
Taxation	—	(0.2)	0.1	0.1	(0.1)	—	1.8
Profit/(loss) before tax	**6.7**	**4.6**	**12.1**	**11.9**	**7.2**	**(12.5)**	**(0.6)**
Finance income	(0.2)	(0.1)	(0.2)	(0.2)	(0.4)	(0.4)	(0.4)
Finance costs[a]	3.7	3.7	9.7	9.7	9.5	10.2	4.0
Operating profit/(loss)	**10.2**	**8.2**	**21.6**	**21.4**	**16.3**	**(2.7)**	**3.0**
Adjustments for:							
Depreciation of property, plant and equipment	21.5	18.2	47.0	45.1	40.0	33.1	22.8
Amortisation expense	5.8	4.8	12.6	13.2	12.4	9.5	6.2
Impairment of property, plant and equipment	—	—	0.3	1.0	1.1	0.5	0.1
Impairment of intangible assets	—	—	0.4	0.8	1.5	0.8	—
Exceptional items – impairment of property, plant and equipment[b]	—	—	0.7	—	—	(0.2)	0.9
Exceptional items – other[b]	0.1	—	1.7	—	0.3	4.8	1.5
Group EBITDA	**37.6**	**31.2**	**84.3**	**81.5**	**71.6**	**45.8**	**34.5**
Share-based management incentive charges	2.7	3.0	6.4	7.8	4.4	3.3	0.9
Impact of joint venture[c]	(4.2)	(5.2)	(13.8)	(13.5)	(11.3)	(3.9)	—
Adjusted EBITDA	**36.1**	**29.0**	**76.9**	**75.8**	**64.7**	**45.2**	**35.4**

(a) FYE 2013 Finance costs includes £2.8 million of exceptional finance costs.
(b) The table below sets out our exceptional items of the Group for the periods indicated.

	For the 22 weeks ended 30 April 2017	For the 20 weeks ended 17 April 2016	FYE 2016	FYE 2015	FYE 2014	FYE 2013	FYE 2012
			(£ million)				
Site relocation costs[i]							
Impairment of property, plant and equipment	—	—	0.7	—	—	(0.2)	0.9
Other	0.1	—	0.8	—	—	—	—
Corporate restructure costs[ii]	—	—	—	—	0.3	—	—
Set-up costs[iii]	—	—	—	—	—	1.5	1.5
Morrisons operating agreement[iv]	—	—	—	—	—	3.3	—
Litigation costs[v]	—	—	0.9	—	—	—	—
Exceptional items	**0.1**	**—**	**2.4**	**—**	**0.3**	**4.6**	**2.4**

(i) Following the growth of the business, the Group decided to relocate its head office during FYE 2016. The move to the new premises was completed in stages to minimise the impact on the business and the Group incurred dual running costs as it transitioned to the new premises. Due to the non-underlying nature of the head office move, these costs were treated as exceptional.

(ii) During FYE 2014, the Group undertook a corporate restructuring. The Group's business was split between a number of legal entities in order to reflect broadly the operational division of the business. To assist with restructuring the Group sought tax, accountancy and legal advice, for which a number of non-underlying costs were incurred.

(iii) During FYE 2013, the Group incurred further costs relating to the set-up of the Dordon CFC, which went live in March 2013, and the set-up of the non-food distribution centre which went live in January 2013.

(iv) During FYE 2013, the Group incurred charges in relation to the Morrisons Agreement. To facilitate the finalisation of the agreement, a number of one-off costs were incurred by the Group which reflects services from professional advisers. Exceptional finance costs of £2.8 million are not shown in this table because such costs were reported in exceptional finance costs for FYE 2013 and so were not reported within operating profit.

(v) The Group incurred litigation costs during FYE 2016 relating to the recovery of interchange fees for card transactions. The fees relating to this litigation were treated as exceptional.

(c) This line comprises the share of MHE JVCo's result that the Group recognises when equity accounting for MHE JVCo and the other income recognised by the Company in respect of reimbursements relating to MHE JVCo paid by Morrisons to Ocado.

(2) Adjusted Operating Profit is a measure of the Group's operating profit or loss, adjusted to exclude exceptional items, share-based management incentive charges and the share of result from our 50% equity interest in MHE JVCo. "*Presentation of Financial and Other Information—Non-GAAP Measures/Alternative Performance Measures.*" A reconciliation of operating profit/loss to Adjusted Operating Profit is set out below.

	For the 22 weeks ended 30 April 2017	For the 20 weeks ended 17 April 2016	FYE 2016	FYE 2015	FYE 2014	FYE 2013	FYE 2012
				(£ million)			
Operating profit/(loss)	10.2	8.2	21.6	21.4	16.3	(2.7)	3.0
Adjustments for:							
Exceptional items[a]	0.1	—	2.4	—	0.3	4.6	2.4
Share-based management incentive charges	2.7	3.0	6.4	7.8	4.4	3.3	0.9
Share of result from joint venture[b]	(0.6)	(0.6)	(2.1)	(2.3)	(2.4)	(0.9)	—
Adjusted Operating Profit	**12.4**	**10.6**	**28.3**	**26.9**	**18.6**	**4.3**	**6.3**

(a) See footnote (a) to the "Profit (Loss) for the period to Group EBITDA and Adjusted EBITDA" table above.

(b) This line comprises the share of MHE JVCo's result that the Group recognises when equity accounting for MHE JVCo.

(3) The table below sets out our capital expenditures of the Group and shows a breakdown of capital expenditures for the indicated periods.

	For the 22 weeks ended 30 April 2017	For the 20 weeks ended 17 April 2016	FYE 2016	FYE 2015	FYE 2014	FYE 2013	FYE 2012
				(£ million)			
Mature CFCs[a]	0.5	0.7	3.3	3.2	10.9	5.9	15.6
New CFCs	26.3	13.2	64.6	52.9	16.5	38.0	80.4
Delivery	10.0	12.6	20.6	25.3	22.1	10.8	8.9
Technology	16.6	11.0	34.3	23.0	16.8	14.1	14.4
Fulfilment development	6.3	3.5	19.7	13.3	16.3	—	—
Other	2.9	0.6	10.5	4.4	3.8	7.5	5.2
Total capital expenditure[b][c] (excluding share of MHE JVCo)	**62.6**	**41.6**	**153.0**	**122.1**	**86.4**	**76.3**	**124.5**
of which relates to maintenance capital expenditure[e]	*5.6*	*4.9*	*12.6*	*16.1*	*8.9*	*6.4*	*6.9*
Total capital expenditure[d] (including share of MHE JVCo)	**63.2**	**42.7**	**156.9**	**126.5**	**98.1**	**76.3**	**124.5**
of which relates to maintenance capital expenditure[e]	*5.0*	*5.8*	*13.2*	*16.4*	*8.9*	*6.4*	*6.9*

(a) The Dordon CFC was treated as a Mature CFC from and including 2015.
(b) Includes investments in tangible and intangible assets.
(c) Excludes assets leased from MHE JVCo under finance lease arrangements.
(d) Includes Ocado share of the MHE JVCo capital expenditure of £0.6 million in P5 2017, £1.1 million in P5 2016, £3.9 million in FYE 2016, £4.4 million in FYE 2015, £11.7 million in FYE 2014, £nil in FYE 2013 and £nil in FYE 2012.
(e) Maintenance capital expenditure reflects management's allocation of total capital expenditure between maintenance projects, principally relating to replacement delivery vehicles and Mature CFCs, and growth projects.

(4) A reconciliation of Adjusted EBITDA to Cash available for debt service and growth is set out below.

	For the 22 weeks ended 30 April 2017	For the 20 weeks ended 17 April 2016	FYE 2016	FYE 2015	FYE 2014	FYE 2013	FYE 2012
				(£ million)			
Adjusted EBITDA	36.1	29.0	76.9	75.8	64.7	45.2	35.4
Change in net working capital	2.5	18.6	18.5	2.3	9.9	23.5	7.2
Maintenance capital expenditures[a]	(5.0)	(5.8)	(13.2)	(16.4)	(8.9)	(6.4)	(6.9)
Income tax paid	—	—	(0.1)	(0.1)	(0.1)	—	(0.1)
Cash available for debt service and growth	**33.6**	**41.8**	**82.1**	**61.6**	**65.6**	**62.3**	**35.6**

(a) Maintenance capital expenditure reflects management's allocation of total capital expenditure between maintenance projects, principally relating to replacement delivery vehicles and Mature CFCs, and growth projects.

(5) Gross Sales (Group) is a measure of reported revenue before excluding value added tax and relevant vouchers. Gross Sales (Group) is a common measure used by investors and analysts to evaluate the operating financial performance of companies within the retail sector. Gross Sales (Group) also includes income received pursuant to the Morrisons Operating Agreement. Gross Sales (Retail) is a measure of reported revenue for the Group's retail operation, before excluding value added tax and relevant vouchers. The Group's retail operation comprises Ocado.com, Fabled.com, Fetch.co.uk and Sizzle.co.uk. Management consider this an important measure of the performance of the Group's retail business. A reconciliation of revenue to Gross Sales (Group) and Gross Sales (Retail) is set out below.

	For the 22 weeks ended 30 April 2017	For the 20 weeks ended 17 April 2016	FYE 2016	FYE 2015	FYE 2014	FYE 2013	FYE 2012
			(£ million)				
Revenue	**600.5**	**481.7**	**1,271.0**	**1,107.6**	**948.9**	**792.1**	**678.6**
VAT	46.4	36.5	98.9	82.4	66.3	50.4	41.9
Marketing vouchers	8.3	6.7	16.8	14.4	11.3	9.9	11.4
Gross Sales (Group)	**655.2**	**524.9**	**1,386.7**	**1,204.4**	**1,026.5**	**852.4**	**731.9**
Morrisons recharges and fees	(54.8)	(43.5)	(119.3)	(88.7)	(54.1)	(9.4)	—
Gross Sales (Retail)	**600.4**	**481.4**	**1,267.4**	**1,115.7**	**972.4**	**843.0**	**731.9**

(6) Revenue (Retail) is a measure of reported revenue for the Group's retail business. This is the Group's revenue excluding Morrisons recharges and fees. The Group's retail operation comprises Ocado.com, Fabled.com, Fetch.co.uk and Sizzle.co.uk. Management consider this an important measure of the performance of the Group's retail business.

(7) External Net Debt represents Total Gross Debt net of cash and cash equivalents and of finance lease obligations payable to MHE JVCo. Reconciliation of Total Gross Debt to External Net Debt is set out below:

	As at						
	30 April 2017	17 April 2016	FYE 2016	FYE 2015	FYE 2014	FYE 2013	FYE 2012
				(£ million)			
Current Liabilities							
Borrowings	(86.5)	(11.4)	(52.9)	(1.6)	(4.4)	(3.3)	(2.6)
Obligations under finance leases[a]							
Property	(1.1)	(1.1)	(1.1)	(1.0)	(1.0)	(0.8)	(0.8)
Vehicles	(12.1)	(10.5)	(11.4)	(8.9)	(7.6)	(7.1)	(6.3)
MHE	—	(0.6)	(0.2)	(0.8)	(2.1)	(4.4)	(10.3)
IT Equipment	—	—	—	—	(0.4)	(0.8)	(2.4)
MHE JVCo	(22.6)	(20.0)	(17.1)	(15.8)	(15.4)	(11.9)	—
	(122.3)	**(43.6)**	**(82.7)**	**(28.1)**	**(30.9)**	**(28.3)**	**(22.4)**
Non-Current Liabilities							
Borrowings	(5.6)	(6.9)	(6.1)	(7.7)	(2.3)	(6.2)	(91.3)
Obligations under finance leases[a]							
Property	(5.6)	(6.6)	(6.0)	(7.1)	(8.1)	(8.5)	(9.4)
Vehicles	(29.7)	(30.2)	(29.4)	(26.0)	(18.0)	(14.2)	(12.8)
MHE	—	—	—	(0.2)	(1.0)	(3.1)	(7.4)
IT Equipment	—	—	—	—	—	(0.3)	(1.5)
MHE JVCo	(85.5)	(101.6)	(91.6)	(103.7)	(115.4)	(100.8)	—
	(126.4)	**(145.3)**	**(133.1)**	**(144.7)**	**(144.8)**	**(133.1)**	**(122.4)**
Total Gross Debt	**(248.7)**	**(188.9)**	**(215.8)**	**(172.8)**	**(175.7)**	**(161.4)**	**(144.8)**
Finance lease obligations payable to MHE JVCo	108.1	121.6	108.7	119.5	130.8	112.7	—
External Gross Debt	**(140.6)**	**(67.3)**	**(107.1)**	**(53.3)**	**(44.9)**	**(48.7)**	**(144.8)**
Cash and cash equivalents[b]	41.9	61.5	50.9	45.8	76.3	110.5	89.6
External Net (Debt)/Cash	**(98.7)**	**(5.8)**	**(56.2)**	**(7.5)**	**31.4**	**61.8**	**(55.2)**

(a) Represents finance leases of the Group. For a description of such leases see "*Description of Other Debt*."

(b) Includes amounts of restricted cash of £4.6 million as at 30 April 2017 and £7.5 million as at 17 April 2016.

(8) *Pro Forma* External Net Debt is External Net Debt as at 30 April 2017 after giving effect to the Financing Transactions as if they had occurred on 30 April 2017 and the use of proceeds thereof (without the deployment of funds raised for general corporate purposes). See "*Capitalisation*."

(9) *Pro Forma* Cash and Cash Equivalents is Cash and Cash Equivalents as at 30 April 2017 after giving effect to the Financing Transactions as if they had occurred on 30 April 2017. Cash and Cash Equivalents includes restricted cash, which equalled £4.6 million as at 30 April 2017. See "*Capitalisation*."

(10) *Pro Forma* Net Interest Expense for FYE 2016 is Net Interest Expense after giving effect of the Financing Transactions and the use of proceeds thereof (without the deployment of funds raised for general corporate purposes) as if they had occurred on 30 November 2015.

(11) *Pro Forma* Leverage Ratio and *Pro Forma* Net Interest Coverage Ratio as at 30 April 2017 each include the Adjusted EBITDA measure for FYE 2016 rather than for the twelve-month period ended 30 April 2017. Net Interest Expense for FYE 2016 was used as a measure rather than for the twelve-month period ended 30 April 2017. Adjusted EBITDA for FYE 2016 and Net Interest Expense, as applicable, were used for these ratios because we have changed our financial calendar in FYE 2017 and as a result extrapolating a twelve-month trailing Adjusted EBITDA number or Net Interest Expense number, as applicable, using our current periods would result in 54-week rather than 52-week measures. The Adjusted EBITDA for the year ended 30 April 2017 based on a 54-week measure was £83.7 million and the Net Interest Expense for the year ended 30 April 2017 based on a 54-week measure was £9.4 million. See "*Presentation of Financial and Other Information—Non-GAAP Measures/Alternative Performance Measure.*"

(12) *Pro Forma* Leverage Ratio represents the ratio between *Pro Forma* External Net Debt as at 30 April 2017 and Adjusted EBITDA for the FYE 2016.

(13) *Pro Forma* Net Interest Expense Coverage ratio represents the ratio between *Pro Forma* Net Interest Expense for FYE 2016 and Adjusted EBITDA for the FYE 2016.

(14) Underlying Distribution Costs and Underlying Administrative Expenses are non-GAAP measures which seek to reflect the underlying performance of the Group that management believes will contribute to long-term sustainable growth. As such, they also exclude the impact of depreciation, amortisation, impairment and costs relating to the provision of services to Morrisons primarily in relation to MHE JVCo, our joint venture entity. See "*Presentation of Financial and Other Information—Non-GAAP Measures/Alternative Performance Measures.*" A reconciliation of reported distribution costs and administrative expenses, the most directly comparable IFRS measures, to underlying administrative expenses and underlying distribution costs, is set out below.

	For the 22 weeks ended 30 April 2017	For the 20 weeks ended 17 April 2016	FYE 2016	FYE 2015	FYE 2014	FYE 2013	FYE 2012
			(£ million)				
Reported distribution costs	**175.0**	**136.9**	**365.7**	**309.4**	**253.1**	**200.0**	**169.8**
Costs recharged to Morrisons	(35.6)	(27.8)	(76.4)	(52.0)	(24.0)	(2.1)	—
Depreciation and amortisation	(19.0)	(16.0)	(41.8)	(40.8)	(35.8)	(29.2)	(19.4)
Underlying distribution costs	**120.4**	**93.1**	**247.5**	**216.6**	**193.3**	**168.7**	**150.4**

	For the 22 weeks ended 30 April 2017	For the 20 weeks ended 17 April 2016	FYE 2016	FYE 2015	FYE 2014	FYE 2013	FYE 2012
			(£ million)				
Reported administrative expenses	**45.1**	**38.0**	**100.6**	**95.6**	**85.0**	**69.6**	**48.8**
Costs recharged to Morrisons	(1.7)	(1.1)	(3.4)	(2.9)	(3.8)	(0.3)	—
Depreciation and amortisation	(8.3)	(7.1)	(18.4)	(19.3)	(19.1)	(14.6)	(9.2)
Underlying administrative expenses	**35.1**	**29.8**	**78.8**	**73.4**	**62.1**	**54.7**	**39.6**

RISK FACTORS

An investment in the Notes involves a high degree of risk and is suitable only for investors who (either alone or in conjunction with an appropriate financial or other adviser) are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses that may result therefrom. Investors should consider carefully whether an investment in the Notes is suitable for them in light of the risks described below and other information in this Offering Memorandum and their personal circumstances. The occurrence of any of the following events could have an adverse effect, which could be material, on our business, prospects, results of operations and financial condition and impair our ability to fulfil our obligations in respect of the Notes, potentially causing a loss of all or part of the investment made when purchasing the Notes.

The risk factors described below are not an exhaustive list or explanation of all relevant risks and should be used as guidance only. Additional risks and uncertainties that are not currently known to us, or that we currently deem immaterial, may individually or cumulatively also have a material adverse effect on our business, prospects, results of operations and financial condition.

This Offering Memorandum contains "forward-looking" statements that are based on assumptions and estimates, and subject to risks and uncertainties. Our actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include those discussed below and elsewhere in this Offering Memorandum. See "Cautionary Note Regarding Forward-Looking Statements."

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

We face intense competition and may fail to maintain a competitive pricing position or compete effectively with traditional and online retailers of grocery products and competitors of our Solutions Business

Our business comprises our retail and Solutions businesses, both of which are dependent on the general success of the online grocery market within the U.K. and, in respect of our Solutions Business, world grocery markets which are rapidly evolving and intensely competitive. See "*Business*" below.

In our retail business, we compete primarily with traditional grocery retailers and with other online grocers, including Tesco.com, Sainsburys.co.uk, ASDA.com, Waitrose.com and Morrisons.com. We also compete with new competitors in the online grocery market, including broad e-commerce companies such as Amazon which conducts U.K. grocery sales through its various offerings, including Amazon Fresh and Morrisons@Amazon.

The principal competitive factors that currently affect our retail business are price availability and breadth of product range, geographic reach, product quality, order accuracy, delivery time, service level, price, promotional activities and customer loyalty to traditional and other online grocery retailers. In addition, some of our current and potential competitors have greater resources, longer operational histories, more customers and/or greater brand recognition. They may be able to secure better terms from suppliers, adopt more aggressive pricing, maintain more capacity to absorb rising input costs, and devote more resources to technology, infrastructure, fulfilment, and marketing, including through larger scale. One of the most significant competitive risks we have faced in recent times is the supermarket price war initiated by certain discounters and which has led to falling product prices and sustained price deflation across the industry. We have been, and continue to be, impacted by this, not least through our *Tesco Price Match* and *Low Price Promise* policies, under which we match our prices both of identical branded individual products and baskets of products to those sold on Tesco.com. This has resulted in our sales volumes increasing more rapidly than our revenues and in lower margins. If we continue to be impacted by price deflation, or if we fail to compete effectively in any one of the other areas noted above, our margins may be squeezed further, we may lose existing customers and/or fail to attract new customers, which may have an adverse effect on our financial condition and future prospects.

We have limited competitive experience providing eCommerce grocery solutions, which we plan to do principally via our Solutions Business. While we believe our Solutions Business offers a full end-to-end platform of software applications and automated warehouse material handling equipment ("MHE") needed to set up and run an online grocery business, there are a number of competitors that

offer solutions that are similar to certain aspects of our Solutions Business technology, including Instacart, MyWebGrocer, Shopify and SAP Hybris, in addition to retailers developing in-house platform solutions. Competitors may in the future develop systems similar to ours. Further, many of our competitors have established operations while we are still developing our Solutions Business. If we are unable to effectively compete with these competitors and win new customers, this may have an adverse effect on our financial condition and future prospects. See "—*The commercialisation of our Solutions Business technology in the U.K. and/or overseas may not be successful"* below.

A number of our competitors' services, such as Amazon's various grocery offerings, including Morrisons@Amazon, and Sainsbury's Chop Chop, have begun to offer customers faster delivery services than we currently provide. If customer preferences in the future move towards expecting or demanding faster delivery times than we can provide or if more of our competitors are able to offer faster deliveries, and/or more convenient delivery slots, we could lose current or potential customers, our brand and reputation could suffer, and we could experience falls in net sales. In addition, any impairment or disruption of our delivery fleet could result in a temporary disruption in the delivery of products to our customers and additional costs, which could have a material adverse effect on our financial condition and future prospects.

Our competitors may also merge or form strategic partnerships, which could cause significant additional competition for us. If the market becomes more competitive between similar products and services, especially in our target areas, then our effectiveness in winning new and retaining existing customers may be diminished, which may have an adverse effect on our financial condition and future prospects.

We are dependent on the United Kingdom's ("U.K.") and global economic conditions

All of our retail sales are generated from operations in the United Kingdom ("U.K."). In addition, overseas sales of our Solutions Business continues to be a focus for us, particularly in advanced economies, and accordingly conditions in those markets, particularly as they affect the grocery sector, are relevant to us. Adverse developments in the macro-economic situation could adversely impact our business and operating results. The global financial system has experienced considerable turbulence and uncertainty in recent years and, despite recent economic growth in the U.K., U.S., parts of the Eurozone and other advanced economies, the outlook for the global economy over the near to medium term remains challenging. Our performance depends to a significant extent on a number of macro-economic factors outside of our control which impact U.K. consumer spending, including political, financial and economic conditions.

Factors which impact buying power and terms of trade include, among other things, gross domestic product growth, unemployment rates, personal income levels, inflationary pressures (including those arising from the pound sterling's depreciation), market uncertainty, consumer confidence, social and industrial unrest, the availability and cost of credit (including changes to interest rates and the timing, quantum and pace of those changes), taxation, regulatory changes, fluctuations in commodity and utility prices, foreign exchange rates and terrorist attacks. Each of these factors could have an adverse effect on our financial condition and future prospects.

Political, operational and economic uncertainty arising from the outcome of the recent referendum on the U.K.'s membership in the EU could adversely impact the Group's business, results of operations, financial condition and prospects

On 23 June 2016, the U.K. held a referendum on its continued membership in the EU. A majority of votes cast were for the U.K. to leave the EU ("Brexit"). The announcement of the referendum result caused significant volatility in global stock markets and currency exchange rate fluctuations immediately following the referendum result that resulted in a significant weakening of the pound sterling against the U.S. dollar, the euro and other major currencies. On 29 March 2017, the U.K. delivered a letter from the U.K. Prime Minister to the President of the European Council, which gave notice of the U.K.'s intention to withdraw from the EU in accordance with Article 50 of the Treaty on European Union. A process of negotiation will commence to determine the future terms of the U.K.'s relationship with the EU, and the uncertainty regarding the process for the U.K.'s exit from the EU before, and the nature and terms of the U.K.'s future relationship with the EU (including the rights of

citizens to live and work in the respective territories) could have a negative economic impact and result in further volatility in the markets, which could lead to various developments that could negatively impact our business. The U.K.'s exit from the EU will take effect on the earlier of either the entry into force of a withdrawal agreement establishing the framework of the U.K.'s future relationship with the EU or on the anniversary date two years after notice of the U.K.'s intention to withdraw from the EU was delivered (29 March 2019).

The effects on the U.K., European and global economies of the uncertainties arising from the results of the referendum process of the U.K.'s exit from the European Union are difficult to predict, but may include economic and financial instability, including continuing instability in foreign exchange markets leading to higher import costs for us or to the introduction of World Trade Organisation or other tariffs between the U.K. and the EU, which could affect many of our input costs, such as import costs and the costs of the goods we purchase for sale to our customers. In addition, the imposition of customs checks on imported goods from the EU could lead to operational disruption to our business and/or the shrinking of our product catalogue. It may also become increasingly difficult for us to hire or retain employees who are EU nationals, who currently make up a higher and important percentage of our total workforce (both hourly-paid employees working in the CFCs and Spokes and skilled employees), with a significant number holding skilled technical, IT and operational roles. We may also lose some of the benefit of offshoring IT development work to Europe we currently have. We also work on IP collaboration projects across Europe, under the Horizon 20:20 programme, and the funding of such projects could be lost. In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations, including safety standards, as the U.K. determines which EU laws to replace or replicate. Any of these effects of Brexit, and others we cannot anticipate, could adversely affect our business, results of operations, financial condition and cash flows.

We are required to comply with food safety, product safety and other consumer protection laws and regulations and may face product recalls and product liability claims

Food safety and public perception regarding safety are essential to our reputation and business. The sale of food or other products for human consumption involves risks such as product contamination, spoilage, mislabelling and product tampering that could lead to product recalls or injury to our customers or others. For example, in early 2013, traces of horsemeat were discovered in beef products sold by certain U.K. supermarkets, including in products sold by Ocado.com that were sourced from Waitrose. The actual or perceived sale of contaminated, spoiled, misbranded or tampered with food or other products by us could result in product recalls, destruction of inventory, negative publicity or product liability claims which could adversely affect our business, results of operations, financial condition and future prospects. Even if an event causing a product recall proves to be unfounded or if a product liability claim against us is unsuccessful or is not fully pursued, the negative publicity surrounding any assertion that the products supplied by us caused illness or injury, or any product recall, could adversely affect both our reputation with existing and potential new customers and our corporate and brand image.

With sales of our proprietary solutions to foreign retailers, we are responsible for the accompanying MHE and processes, which are required to comply with foreign safety standards and product specifications. As noted below, we are dependent on a number of third party suppliers, any of which may fail to meet our safety and quality standards and specifications. See "—*We are dependent on relations with other third parties, including grocery suppliers, MHE manufacturers, maintenance providers, landlords and distributors"* below. A violation of food and product safety laws or regulations relating to our operations, or the MHE and processes for which we are responsible, or a failure to comply with the instructions of the relevant safety authorities could lead to, among other things, negative publicity and reputational damage, fines, costly compliance procedures and, in extreme cases, a temporary shutdown of all or part of our business. Such violations could, therefore, have an adverse effect on our financial condition and future prospects.

We may incur additional costs or delays in complying with new regulations applicable to the sale of food products or to the development and operation of our Solutions Business

The handling of raw food items in our CFCs, such as meat and fish, is subject to strict regulations. We are also subject to regulations concerning the preparation and packaging of prepared meals and other food items and segregation requirements between certain food items. Furthermore, a number of

regulations apply to the development and operation of our Solutions Business (both MHE and software) and that may in the future apply, including U.K. and foreign health and safety and environmental regulations, as well as the General Data Protection Regulation ((EU) 2016/679) ("GDPR"). *See "—The Group may be subject to privacy or data protection failures"* below.

The modification of existing legislation or regulation, or the introduction of new legislative or regulatory initiatives, may lead to increased compliance costs or delay the development and operation of different elements of our Solutions Business both in the U.K. and overseas, as well as the availability of a number of items and may also affect the market for such products, our operations and the conduct of our business. In addition, any inquiry or investigation from a food regulatory authority could have a negative impact on our reputation. Any of these events may have an adverse effect on our financial condition and future prospects.

We may face increased environmental costs

Environmental sustainability is an important point of focus for Ocado and is likely to be of continuing importance to governments, regulators and other interested or influential bodies. There may be changes to existing legislation or regulation or the introduction of new legislation, regulation or government policies or practice, which could adversely affect our operations and conduct of our business, particularly in relation to the packaging and labelling of products, the use of energy, emission charges and the delivery of customers' groceries in plastic bags. If there is a change to environmental legislation, there may be a decrease in demand for our products and services, or an increase in our costs, which may adversely affect our financial condition and future prospects.

We may face increased costs in relation to regulated or restricted products and the regulation of our other activities, including our Solutions Business

The sale and storage of certain products including tobacco, alcohol, medicines, aerosols and razor blades is subject to extensive regulation, including in some instances the requirement to obtain and comply with licences, restrictions on the quantity of items that can be sold at one time and restrictions on the minimum age of customers. For our Solutions Business, we also face potential increased costs to comply with regulatory requirements in the U.K. (in respect of Morrisons and potential U.K. Solutions Business partners). The marketing and sale of our proprietary Solutions Business technology in other jurisdictions may lead to compliance related costs that are greater than those currently necessary to meet U.K. standards. This could increase the price we are required to charge for our platform services and have a significant adverse effect on demand for our solution and/or put pressure on our margins.

In addition, further modification to existing legislation and/or regulation or the introduction of new legislative or regulatory initiatives could have a significant adverse effect on markets and demand for our Solutions Business technology, our operations and the conduct of our business. The cost and/or the effect of complying with such modified and/or new legislation or regulation may have an adverse effect on our financial condition and future prospects.

There may be a decrease in demand for our products in the event of health concerns and pandemics

In recent years there have been outbreaks of a number of diseases that have had the potential to spread rapidly over very large geographic areas and/or other health-related concerns which have been, or have been perceived to be, associated with food products. Any outbreak of disease and/or other widespread health-related food concerns could increase our costs in sourcing alternative suppliers and/or have an adverse impact on consumer preferences and spending. A widespread outbreak of any disease or concerns in the U.K. or elsewhere could have an adverse effect on our suppliers and customers and on the economy in general, with a consequential adverse effect on the demand for products sold by us, our financial condition and future prospects.

We may be affected by an increase in governmental regulation of the internet and/or online retail

The application or modification of existing laws or regulations, or adoption of new laws and regulations governing the internet and online retail operations could adversely affect the manner in

which we currently conduct our business or the way potential corporate partners may operate their businesses. The legislative framework governing the internet remains largely unsettled, even in areas where there has been some legislative action. In addition, the growth and development of the market for online retail may lead to more stringent customer protection laws which may impose additional burdens on us, all of which may have an adverse effect on our financial condition and future prospects.

The online grocery industry in the U.K. may not sustain or improve upon current levels of demand, and we may fail to develop our retail proposition to successfully appeal to a broader customer base and sustain growth rates

Our sales rely almost entirely on orders received through our Webshops and mobile/tablet applications for Apple, Android and Kindle devices. We believe that the online grocery industry in the U.K. is moving from a period of high sales growth experienced over the last few years to one of lower growth and a more mature market.

This general slowdown in growth rate comes at a time when we are continuing to add to our installed CFC capacity, with our fourth CFC in Erith currently under construction and expected to become operational in FYE 2018. Although we experienced an increase in our active retail customers (which we define as our unique core customers who have shopped with us in the last 12 weeks), to 580,000 in FYE 2016 up from 509,000 and 453,000 in FYE 2015 and FYE 2014, respectively, there are no assurances that our historical growth rates will continue, or that we will continue to experience growth in active customers, and it is uncertain whether our business will sustain and continue to improve on current levels of demand and growth in customers. Additionally, existing or newer competitors such as Amazon through its various grocery offerings may improve their appeal to customers and accelerate their own growth, taking increased shares in a slower growing market.

Our future success depends to a substantial extent on our ability to continue to develop our retail proposition and take market share and on the continued willingness of additional consumers beginning to use online services as a method of buying groceries and other products and services, or continuing to increase their use if they are already doing so. If we are unable to successfully further develop our retail proposition, if the online grocery industry in the U.K. does not continue to grow or if our active customer base does not increase in line with our current projections, then this would have an adverse effect on our business strategy, results of operations, financial condition and future prospects.

We are subject to risks inherent in operating in a retail market that is still developing and evolving

The online grocery industry is still developing and rapidly evolving. Our business and prospects must, therefore, be considered in light of the risks and difficulties we encounter operating in an industry that is still evolving. These risks and difficulties include:

- managing rapid growth in personnel and operations;
- developing sufficient management and technology capability in a rapidly evolving industry;
- managing and further developing a complex business system;
- high capital expenditures associated with the development of further capacity in our newly operational CFC in Andover, our fourth CFC in Erith that is currently under construction; and with any future CFCs or general merchandise distribution centres ("GMDC") we construct;
- further development to our infrastructure and technology solutions; and
- accurately predicting future capacity requirements and ability to maintain or grow market share.

For further details on the changes that the U.K. online grocery industry is experiencing, see *"—The online grocery industry in the U.K. may not sustain or improve upon current levels of demand and we may fail to develop our retail proposition to successfully appeal to a broader customer base and sustain growth rates"* above and "*Industry Overview".*

In addition, the risks and difficulties listed above are also applicable to our Solutions Business that we are offering principally to retail partners outside of the U.K.

We cannot be certain that our business strategy will be successful or that it will successfully address these risks. Our failure to address any of the risks described above could have an adverse effect on us. In particular, historical growth rates may not be sustainable and may decrease in the future, which would have an adverse effect on our business strategy, results of operations, financial condition and future prospects.

Our promotion of new product ranges, such as our expansion into general merchandise, and entry into new business areas may not be successful

In recent years, we have expanded our hypermarket range on Ocado.com and product offering into general merchandise categories, including through our dedicated destination site Webshops which focus on specialist product ranges, such as our pet store Fetch in 2013, our kitchen and dining store Sizzle in 2014 and our new premium beauty offering Fabled.com in 2016.

We have limited sales experience in the new general merchandising categories targeted through Fetch, Sizzle and Fabled. Our planned focus on these new ranges of products in the future may not achieve broad customer acceptance. We may also be subject to claims if customers of these new ranges of products experience quality issues, delivery service disruptions, failure or if we breach future regulatory requirements. In addition, our profitability, if any, in these new ranges of products may be lower than in our traditional online grocery business, which may adversely affect our overall profitability and results of operations. Furthermore, there is no assurance that we will be able to recoup our investments in introducing these new ranges of products.

We may also choose to continue to expand our operations by offering other different and new services to existing and new customers, promoting new or complementary products or sales formats, continuing to expand the breadth of products offered or our market presence through relationships with third parties (either in the U.K. or overseas).

For example, in 2016 we launched a premium online store, Fabled, in collaboration with Marie Claire. The operation of our Fabled online store is a new way of transacting business for us that is heavily dependent on a small number of supply relationships and brands, as well as our association with Marie Claire. Additionally, the nature of the premium beauty business requires us to operate a bricks and mortar store for Fabled, something that we do not have expertise in. Our collaboration with Marie Claire may not be successful and may not be renewed following its current expiration date of 2031, which could have an adverse effect on our financial condition, reputation and future prospects. See "*Business—Our Solutions Business—Relationship with Marie Claire*".

In March 2017, our general merchandise division entered into an agreement with the U.K. based Dobbies Garden Centres under which it will provide technology and logistics services to Dobbies to enable Dobbies to launch and develop its own online business. See "*Business—Our Solutions Business—Relationship with Dobbies*" below for further details. We may not be able to continue to expand our operations in a cost-effective or timely manner and any new services, products or relationships that are not favourably received by consumers could damage our reputation or brand. Such expansion of our operations would also be likely to require significant additional investment, together with operations and resources, which would strain our management, financial and operational resources. The lack of market acceptance of such efforts or our inability to generate satisfactory revenues from such expanded services or products to offset their costs could have an adverse effect on our financial condition, reputation and future prospects.

The commercialisation of our Solutions Business technology in the U.K. and/or overseas may not be successful

We have started to offer a platform to corporate customers, OSP, which comprises an end-to-end software and physical infrastructure solution for grocery retailers. Our Solutions Business technology is offered as a fully integrated service which provides solutions customized to the retailer's specific requirements and the service they wish to offer their customers. Offering this platform to retail partners, in addition to other proprietary technology solutions, principally outside of the U.K., is part of our strategy. See "*Business—Our Solutions Business".*

With the exception of Morrisons, Dobbies and a European regional supermarket, we currently do not have any solutions partners and there can be no assurance our efforts to further commercialise our Solutions Business technology will be successful. The platform industry is still developing and evolving and we may face competition from alternative suppliers. Our business and prospects must, therefore, be considered in light of the risks and difficulties we encounter operating in this still developing and evolving industry. We have limited pricing, sales and delivery experience with our platform. Our product may not achieve broad customer acceptance and may present new and difficult technology or operational challenges for us. In addition, as the online grocery market is less mature in many of the markets outside the U.K. where we hope to continue to commercialise our proprietary technology, potential partners may be reluctant to adopt it.

If we are unable to sell our proprietary technology to customers in these new markets as planned or if commercialising our proprietary technology further in overseas markets where we have little or no previous experience proves more complex, time consuming or expensive than we anticipate, this may adversely affect our financial condition and future prospects.

We may also be subject to claims if our corporate partners experience quality issues, service disruptions or failure. In addition, our profitability, if any, in this new business area may be lower than in our traditional online grocery business, which may adversely affect our overall profitability and results of operations. Furthermore, there is no assurance that we will be able to recoup our current or future investments in developing and introducing our proprietary technology.

Additionally, transactions with corporate partners that we enter into in the U.K. may cannibalise sales from our retail business.

Sales of our products are subject to changing consumer preferences and we may not be able to keep pace with such changes

The success of our business depends on the continued appeal of the range of products we offer. The U.K. grocery industry is characterised by ever-changing consumer trends and new product and service innovation to address these trends. For example, customers' grocery shopping behaviour continues to change from using traditional physical store based supermarkets, to discount and smaller format stores and online delivery. Many customers are also increasingly foregoing weekly purchases at larger format stores in favour of more frequent, convenience top-up shopping. Similarly, the platform industry is still developing and evolving and new technological developments and market trends could lead to significant changes in the industry.

We must stay abreast of these and other emerging market, lifestyle and consumer preferences and anticipate product and service trends that will appeal to existing and potential future customers. Failure to identify and capitalise on such changing market, lifestyle and consumer preferences may have a material adverse effect on our business, financial condition and results of operations. Further, if we misjudge the demand, we may build up excess inventory for certain products, which could result in a decrease in sales prices for those products and inefficient working capital management which could have a material adverse effect on our business, financial condition and results of operations.

Failure to protect our image, reputation and brand could materially affect our business

Maintaining the reputation of, and value associated with, the Ocado brand is of central importance to our success in online grocery retail and in retaining existing and attracting new customers. The online grocery market is perceived by customers as a premium offering and we are positioned as a provider of a premium service within the market. While we have sought to broaden the appeal of our service to customers more generally, mainly through our *Tesco Price Match* and *Low Price Promise* policies and a broad range, if customers chose other cheaper online or traditional discount store based offerings provided by our competitors, this may have an adverse effect on our financial condition and future prospects.

We also have a number of other brands (principally Fetch, Sizzle and Fabled) that are important to our success and for the continued growth of our business. We believe that the recognition and reputation of our brands among our customers and suppliers have significantly contributed to the growth of our business.

Promotion and enhancement of Ocado and other brands depends on our success in providing a superior customer experience, value for money and high quality customer service for buying groceries and other products online. How successful we are in this regard depends on a variety of factors, such as our ability to provide a reliable and user-friendly website interface for our customers reliable and timely delivery of our products, compete with new entrants in the market and superior after sales services. Our sales may decrease if our website services are interrupted or otherwise fail to meet our customer requests. See "*—Our IT systems are interdependent and a failure in one may disrupt the efficiency and functioning of our operations".*

Additionally, service levels may be affected if our operations have insufficient capacity. Should we fail to provide our product delivery services in a convenient or reliable manner, or if our customers are not satisfied with our product quality or value for money, our reputation and customer loyalty could be negatively affected.

Of the approximately 50,000 SKUs on average that were sold by Ocado.com in FYE 2016, over 90% are not supermarket own-label products. Of the remainder, approximately 1% are Ocado own-label and approximately 7% were Waitrose own-label. We benefit by brand association through our branding arrangements with Waitrose and our ability to supply Waitrose own-label products. If our branding arrangements with Waitrose end and/or competition from Waitrose increases, this could negatively affect our brand. See"*—We rely on the Waitrose brand and Waitrose own-label products and our long-term sourcing agreement expires in 2020*", "*—The Sourcing Agreement may not be renewed following its ultimate expiry", "—The Sourcing Agreement contains minimum sourcing provisions which restrict the growth of our Ocado own-label range and independent sourcing capability and negotiation know-how*", "*The Sourcing Agreement could be terminated early by Waitrose/John Lewis following a change of control of the Group (and in certain other circumstances)", "—If Waitrose fails to source products for us, we may be unable to replace the Sourcing Agreement on acceptable terms or at all"* and "*The Group competes directly with Waitrose.com and Morrisons.com who are both also our key contractual counterparties*" below. Furthermore, the importance of brand loyalty may increase as new online grocery retailers join the market. We seek to further develop brand loyalty from customers through advertising, marketing and corporate social responsibility initiatives.

We have in the past received complaints about our advertising campaigns, including complaints from the Advertising Standards Authority. A successful complaint against one of our advertising campaigns could generate negative publicity or result in a cost to us were it required to change any of its and/or necessitate costly changes to our advertising.

If we are unable to maintain satisfactory customer experience and provide high quality customer service, or if we are subject to unfavourable publicity, for example due to a significant product recall, the conduct of an individual employee or negative press reaction to statements made by us or the industry sector generally, this could damage our image, reputation or brand, and if future branding and brand loyalty efforts are not successful, our sales and ability to retain existing and attract new customers will be impacted, which may have an adverse effect on our financial condition and future prospects.

Our success depends in part on our ability to increase our net sales per active retail customer and to continue to grow profitably

Our ability to continue to grow profitably depends in part on whether we can retain our existing customer base and generate higher sales and repeat purchases from this customer base, while maintaining or increasing our the average item price and order size. To do this, we must provide our customers and potential customers with an intuitive, convenient, efficient and differentiated online grocery shopping experience.

The average order size at Ocado.com (excluding the impact of smaller standalone orders from our destination sites) declined by 2.7% to £108.10 during FYE 2016, down from £111.15 in FYE 2015, principally due to deflation in the average item price, as well as a slight reduction in the number of items per order partly due to increased customer order frequency. See "*Business—Our Retail Business—Delivery options*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of operations—Comparison of financial results for FYE 2015 and FYE 2016—Revenue and Gross Sales."* There is a risk that these trends may continue. If we fail to increase net sales per active customer and generate repeat purchases, this could have an adverse effect on our financial condition and future prospects.

The seasonality of our retail business may cause our operational activity to fluctuate and place increased pressure on our operations at peak times

Family groups represent a significant proportion of our customer base. As a result, our operational activity slows down during U.K. summer and Easter school holidays with peaks during the Christmas period. If we do not successfully plan for and manage these fluctuations and are unable to sufficiently meet client demand, it could significantly affect our financial condition and future prospects. If too many unique customers attempt to access our websites within a short period of time, we may be unable to handle the server load and may experience system interruptions that make our websites unavailable or prevent us from efficiently fulfilling orders, which may reduce the volume of goods we sell and the attractiveness of our products and services. In addition, we may be unable to adequately staff our operations and delivery networks during peak periods. This could have an adverse effect on our financial condition and future prospects.

Our grocery retail business currently depends on three CFCs located in Hatfield, Dordon and Andover and our general merchandise business currently depends on a single GMDC located in Welwyn

We currently operate three CFCs located in Hatfield, Dordon and Andover and are building a fourth CFC in Erith, which we expect to become operational in FYE 2018, and our GMDC in Welwyn. We are dependent on the continued efficient operation of our existing CFCs and GMDC, the ability to increase their capacity in order to continue to satisfy any increase in the number of customer orders and the ability to maintain a high level of accuracy in fulfilling these orders. The operation, management and expansion of our CFCs and GMDC are key to the continuation of our business and our future growth, including as part of our efforts to highlight the benefits of our Solutions Business technology to potential partners. If we fail to operate our CFCs and GMDC successfully and efficiently, our deliveries could be delayed, a significant portion of our inventory could be damaged or our ability to adequately stock the products we sell could be impaired. In particular, our CFC in Dordon and the fourth CFC under construction in Erith are currently, and will in the future be, used in part to fulfil our contractual obligations to Morrisons. Any failure of operating either or both of these CFCs could negatively impact on our ability to meet our contractual obligations to Morrisons, which would have a material adverse effect on our financial condition and future prospects.

Any or all of the CFCs and GMDC could also suffer prolonged power or equipment failures, refrigeration failures, failures in their IT systems or networks or damage from fires, floods, other disasters or other unforeseen events which may not be covered by or may be in excess of our insurance coverage. Damage resulting from any of these events may take considerable time to repair. The direct effect of the events described above and a prolonged period before rectification could have an adverse effect on our financial condition and future prospects. Moreover, the complete destruction of any one or all of our CFCs and GMDC through a single or multiple catastrophic event or events would have an adverse impact on the operation of our business, our financial condition and prospects for a significant period of time.

Customer demand for deliveries is not equal on each day of the week, and at various times demand has peaked for weekend deliveries, or for deliveries on specific week days. In order to keep effective capacity of our CFCs as high as possible, steps are taken to “smooth” the delivery profile across the week, such as offering cheaper (or free) deliveries at certain times. If the steps taken to prevent the weekly spikes in delivery numbers are insufficient, the effective capacity of our CFCs and GMDCs would be reduced, which would have a material adverse effect on our financial condition and future prospects.

We may not successfully replicate our business systems to new CFCs on time and within budget

Part of our business strategy is to further expand our operations by building additional CFCs in the U.K. in the future to increase the capacity of our business and service our customers. We are currently constructing our fourth CFC in Erith and expect it to become operational in FYE 2018. We commenced the design and construction of the CFC in Erith before our CFC in Andover was fully operational and we expect the former site will have approximately three times the order capacity of the latter. The CFC in Erith will service more than one retailer (Ocado and Morrisons) at the same time, which has added complexity to the design and construction process. Any failure to complete construction of this project on time and on budget may adversely affect our reputation, financial position and future prospects.

Our business systems, physical and IT infrastructure are currently undergoing significant changes. On the one hand, our CFC in Andover and our CFC that is currently under construction in Erith, as well as any future CFC based on our Solutions Business technology, will use our new proprietary MHE and associated software that we have developed to further automate the picking process. On the other hand, legacy CFCs in Hatfield and Dordon rely on the MHE supplied to us by third parties, with some customisation. If the use of the MHE supplied to us by third parties or the continued development and use of our new proprietary MHE and associated software is not successful or if we fail to continue to develop and improve efficiency and reliability of our CFCs in line with our expectations, on time and on budget, our financial position and future prospects may be adversely affected.

We are also currently in the process of updating our software, including our warehouse management system, across different sections of our business. This update process is expensive and our software updates are at different stages of development and refinement. Any failure to update our software successfully or in a timely manner could have an adverse effect on our financial condition and future prospects, including our ability to further commercialise and sell our Solutions Business technology.

Our ability to replicate our business model in new CFCs generally, including for any future CFC we may seek to develop, cost-effectively and in a timely fashion, will depend upon a variety of factors, including:

- fluctuations in the cost of particular commodities required to build a CFC and the currency (principally euro) in which plant and machinery for a CFC would be purchased;
- our assumptions about the costs of fully developing and operating our new proprietary MHE and associated software;
- our assumptions about the efficiency and reliability of our new proprietary MHE and associated software;
- potential regulation of the communication protocol used by our robots;
- the availability of appropriate and affordable sites that can accommodate a CFC, which in turn depends on a combination of physical and geographical factors;
- our ability to obtain the necessary planning consents;
- our ability to successfully and cost-effectively hire, retain and train employees to operate any new CFC;
- our ability to roll out the business systems in any new CFC;
- finding suitable, reliable and trustworthy property developers;
- the contractors to manufacture and install our MHE, which we now design in-house, which carries all of the different risks mentioned; and
- management resources.

Significant overruns of the predicted budget of building and fitting-out any further CFCs might make such building and fit-out economically unviable. If the replication strategy fails, we could be forced to delay further expansion in the future, including the commercialisation and sale of our Solutions Business technology. As we build further CFCs and seek to commercialise and sell our proprietary technology, there is no guarantee that additional CFCs will achieve a sufficient level of operational efficiency, market penetration or customer orders to ensure that they become or remain commercially viable. If the replication of our business systems fails for any reason, or is more expensive or slower than planned, then this may have an adverse effect on our financial condition and future prospects as well as contractual obligations with solutions partners.

We are subject to risks associated with delivery of products to our customers through our Spoke sites and our delivery fleet for last mile transportation, entirely by road

We currently have 17 Spoke sites: eight servicing Ocado only and nine servicing both Ocado and Morrisons. We rely on these sites to deliver orders to customers that cannot be efficiently fulfilled directly from our existing CFCs. Spokes are able, to some extent, to serve geographies of

neighbouring Spokes provided they have the vans available to do so; however, they are unlikely to be able to deliver to these geographies as economically as they can deliver to their own. Any disruption to the efficient operation of a Spoke may affect our ability to deliver products to certain customers, or to do so economically, which may have an adverse effect on our financial condition and future prospects. In addition, a Spoke may suffer prolonged power or equipment failures, refrigeration failures, or damage from fires, floods, other natural disasters or other unforeseen events which may not be covered by insurance. Damage resulting from any of these events may also take considerable time to repair.

We are reliant on being able to locate and develop new Spokes in order to increase the number and geographic spread of our customers. Developing new Spokes is considerably less complicated than developing new CFCs. However, to the extent we are unable to locate and develop appropriate and affordable new Spokes, our further expansion will be adversely affected. We lease a majority of our Spoke sites (as opposed to owning them) and could breach the terms of such leases inadvertently through the day-to-day operation of our business. Any breach of the terms of the leases on which they are held could result, if not waived or deemed waived by the relevant landlord, in the early termination of the lease. A sudden or unexpected shutdown of a Spoke or the early termination of a lease on which a Spoke is held could cause a significant disruption in our business and have an adverse effect on our financial condition and future prospects.

We are subject to the risks associated with our ability to provide delivery services. We offer our customers one-hour delivery time slots seven days a week, with available slots ranging from 5.30 a.m. to 11.30 p.m., and we offer same day delivery service within certain catchment areas. Our distribution capacity at any time is dependent on the timely performance of services by third parties, including the shipping of products to and from our CFCs. We are entirely reliant on deliveries by road: from suppliers to CFCs and GMDC, from CFCs to the Spokes, from GMDC to the CFCs and Spokes and from the Spokes or CFCs to customers. In addition, we rely on the ability of employees to be able to get to their place of work, either at CFCs or the Spokes. This leaves us exposed to traffic congestion, road works, congestion charges and inclement weather, particularly snow, all of which could at times render deliveries difficult or even impossible. We are also subject to regulations governing the number of hours that drivers can work on consecutive hours and days, and as a result, we may not have enough drivers available to work during periods of very high demand or adverse weather conditions. Regulations also govern the weight limits of the loads each van can take. For instance, all of the Ocado delivery vans are limited to a loaded weight of 3.5 tonnes. This affects the operational efficiency of our delivery infrastructure and any changes to these regulations may have a negative effect on our financial prospects and any further changes to the regulatory regime may increase this adverse effect.

Further growth is subject to limitations on the capacity of current CFCs and Spokes

Our three current CFCs and existing Spokes together can only provide our service to over 70% of U.K. households. Increasing our geographic reach by any significant amount would require us to establish more Spokes and/or CFCs and there is a limit to the number of additional Spokes that can be efficiently served from our existing CFCs.

Our CFC capacity is described in terms of “effective” capacity, which we present in terms of Ocado equivalent order capacity. We believe that the three operational CFCs will have the effective capacity to process approximately 420,000 orders per week once fully ramped up (95,000 of which are allocated to Morrisons at our Dordon CFC). Although currently at the start of the ramp up process, we believe our Andover CFC will ultimately have an effective capacity to process 65,000 orders per week and our fourth CFC in Erith will add an additional effective capacity to process approximately 200,000 orders per week (approximately 60,000 of which will be allocated to Morrisons). We believe that the capacity of our CFCs is sufficient for our current orders and to accommodate growth in line with our current expectations.

Failure to expand the capacity of the existing CFC or to continue to develop new CFCs and Spokes may adversely affect our future prospects and financial condition, in particular if customer demand for our services is greater than our capacity to process such demand. In addition, without further capital expenditure, either to increase the capacity of existing Spokes or to develop new ones, our business will not be able to grow beyond a certain size, which may adversely affect our financial position and future prospects.

We are subject to payments-related risks

We are entirely reliant on electronic payment methods. We accept payments using credit and debit cards, PayPal and Apple Pay. If we offer new payment options to customers, we and our customers may be increasingly exposed to fraud (although fraud is not currently a significant concern). For existing and future payment options we offer our customers, we may become subject to additional regulations and compliance requirements (including obligations to implement enhanced authentication processes that could result in significant costs and reduce the ease of use of our payments products). We pay interchange and other fees for these card payments, which may increase over time and raise operating costs and lower margins. Interchange fees currently are subject to an effective minimum amount, set by MasterCard and Visa, which is beyond our control. We rely on third parties to provide payment processing services, and it could disrupt our operations if these companies become unwilling or unable to provide these services. We are also subject to payment card association operating rules, certification requirements, Payment Card Industry Data Security Standards ("PCI-DSS") and rules governing electronic funds transfers, which could change or be reinterpreted to make them difficult or impossible to comply with. If we fail to comply with these rules or requirements, we may be subject to fines and/or higher transaction fees and, in extreme cases, may lose our ability to accept payments from customers, process electronic funds transfers or facilitate other types of online payments.

Any failure of our payment processing systems, whether caused by a systems failure or otherwise, will adversely affect our income in the short term and may result in us losing customers which may have an adverse effect on our financial condition and future prospects. In addition, there can be no assurance that advances in computer capabilities, new discoveries in the field of cryptography, or other events or developments will not result in a compromise or breach of the processes we use to protect customer transaction data. If any such compromise or breach were to occur, it could have an adverse effect on our reputation, business, future prospects, financial condition and results of operations.

We may not have adequate protection for our intellectual property rights or may be accused of infringing intellectual property rights of third parties

We regard our intellectual property (including patents, trademarks, service marks, copyrights, trade dress, trade secrets, proprietary technology, and similar intellectual property) as critical to our success, and we rely on patent, trademark and copyright law, trade secret protection, and confidentiality and/or licence agreements with our employees, customers and others to protect our proprietary rights. Our first patents were granted in 2016 and as of May 2017, we had filed patent applications covering over 58 separate innovations, the majority of those filed relating to our new proprietary MHE, which is now installed in our CFC in Andover. See "*Business—Our Solutions Business—IT Systems and other intellectual property—Intellectual Property*".

We may not be able to discover or determine the extent of any unauthorised use of our proprietary rights. Third parties that licence our proprietary rights may also take actions that diminish the value of our proprietary rights or reputation. The protection of our intellectual property may require the expenditure of significant financial and managerial resources. Moreover, the steps we take to protect our intellectual property may not adequately protect our rights or prevent third parties from infringing or misappropriating our proprietary rights. We also cannot be certain that others will not independently develop or otherwise acquire equivalent or superior technology or other intellectual property rights.

Other parties may also claim that we infringe their proprietary rights, including in relation to our newly developed proprietary MHE and associated software to automate the picking process that is currently being used in our CFC in Andover and will be used in our future CFC in Erith. See "*—We may not successfully replicate our business systems to new CFCs on time and within budget*" above. We may be subject to claims and legal proceedings regarding alleged infringement by us of the intellectual property rights and patents of third parties. Such claims, whether or not meritorious, may result in the expenditure of significant financial and managerial resources, injunctions against us, or the payment of damages, including to satisfy indemnification obligations. We may need to obtain licences from third parties who allege that we have infringed their rights, but such licences may not be available on terms acceptable to us or at all. In addition, we may not be able to obtain or utilise on terms that are favourable to us, or at all, licences or other rights with respect to intellectual property we do not own. These risks have been amplified by the increase in third parties whose sole or primary business is to assert such claims.

We may not be able to keep pace with new technological developments

The online grocery industry is characterised by rapid technological evolution, changes in end user requirements and preferences, frequent introductions of new products and services embodying new technologies and the emergence of new industry standards and practices that could render our existing proprietary technologies and systems obsolete. Our success depends in part on our ability to store, retrieve, process and manage substantial amounts of information and on being able to provide our customers with efficient methods of food logistics and distribution. To achieve our strategic objectives and remain competitive, we must continue to develop and enhance our information systems and seek to improve our methods of food logistics and distribution. This may require the acquisition of equipment and software and the development, either internally or through independent consultants, of new proprietary software or logistics and distribution solutions.

No assurance can be given that we will be able to continue to design, develop, implement or utilise, in a cost-effective manner, information systems and logistics and distribution solutions that provide the capabilities necessary for us to compete effectively. Any failure to adapt to technological developments could mean that we fail to capture what may become an increasingly important part of the online grocery market and this may have an adverse effect on our financial condition and future prospects.

We are dependent on relations with other third parties, including grocery suppliers, MHE manufacturers, maintenance providers, landlords and distributors

In addition to our relationships with Waitrose, whom we rely on to monitor third party suppliers who also supply us, we are dependent on our relationships with our own third party suppliers, which exposes us to risks that such suppliers may fail to meet timelines, provide us with sufficient product or comply with our quality specifications and standards. The use of third-party suppliers increases the demands on our quality control personnel and exposes us to risks that the products provided by our suppliers may not meet the relevant quality standards. Although we monitor our own third-party suppliers and maintain an audit program for compliance with our specifications, there can be no assurance that such measures will be effective in all cases in the future. Any adverse changes to our relationships with our suppliers or quality issues caused by our suppliers could have a material adverse effect on our business, financial condition and results of operations, including on our image, brand and reputation.

Our operations are dependent on a number of key supplier relationships, including with the companies from whom we purchase vans, dry ice and carrier bags. We are also dependent on MHE manufacturers and other suppliers of the machinery used within our CFCs and our Spokes for their continued supply and maintenance. For example, we have formed a long term relationship with Tharsus for the manufacture and customisation of the robots we use that automate the picking processes as part of the proprietary MHE and associated software we have developed for use in our CFC in Andover and future CFC in Erith. Tharsus is the sole manufacturer of these robots and if it ceased operations or was temporarily unable to supply robots, this could adversely affect our operations or financial condition until an alternative supplier is found, and there could be no guarantee that any alternative supplier would be as satisfactory as the existing arrangements. We are also dependent on other third parties, including landlords and distributors, and our current cloud service suppliers Amazon Web Services and Google. Any adverse changes to our relationships with these third parties or in a reduction in availability or level of service offered by these third party providers could restrict our ability to conduct our business and thereby adversely impact our financial condition and future prospects.

Growth may place significant demands on our management and infrastructure

The growth of our business to date, and our future growth (in particular through the expected completion of construction and commencement of operations at our fourth CFC in Erith), has placed and is expected to continue to place significant demands on our management and operational and financial infrastructure. In addition, historically we have only developed our new CFCs one site at a time. In order to achieve our current expansion plans and meet the needs of our retail business, in the future we may need to develop multiple CFCs in parallel.

As our operations grow further, we will need to continue to improve and upgrade our systems and infrastructure. This expansion will require us to commit substantial financial, operational and technical

resources in advance of continued increases in the size of the business, with no assurance that the volume of business will increase or that we are able to successfully manage this expansion. Continued growth could also strain our ability to maintain reliable service levels for our customers, develop and improve our operational, financial and management controls, enhance our reporting systems and procedures and recruit, train and retain employees.

Managing growth has in the past and will in the future continue to require significant expenditure and allocation of management resources, as well as an expansion in headcount. If we fail to achieve the necessary level of efficiency as we continue to grow, there could be an adverse effect on our business, operating results and financial condition.

Our business systems may be unable to accommodate a significant increase in the number of customers or orders as the existing CFCs or any new CFCs begin to operate at or near their capacity. If we are unable to accommodate a substantial increase in customer orders, our growth strategy may be adversely affected.

In addition, our current expansion plans rely on the continued successful operation of the MHE supplied to us by third parties for our legacy CFCs in Hatfield and Dordon and also on the continued testing and development of our new proprietary MHE and associated software for our CFC in Andover, for our future CFC under construction in Erith as well as for any future CFC based on our Solutions Business technology we develop. If the use of our current MHE and development of our future MHE and associated software is not successful, this may adversely affect our financial position and future prospects. See "*—We may not successfully replicate our business systems to new CFCs on time and within budget".*

Any expansion through joint ventures, partnerships or other collaborative activities or through merger and acquisition activity may be unsuccessful

In the future, we may continue to expand through joint ventures, partnerships, mergers and acquisitions and, other collaborative activities with third parties. Participation in joint projects contains an inherent risk in their management and it can be difficult to guarantee the achievement of joint goals as we have limited control. Similarly, cooperating with third parties may require us to rely on our partners to help achieve our aims and maintain our reputation. We may also expand through mergers and acquisitions in the future. Acquisitions could necessarily leave us exposed, at least to some degree, to any operational failings of the target company and potentially to overpaying for any such target. Joint ventures and mergers or acquisitions, including the difficulties involved in integrating companies, businesses or assets, may divert financial and management resources from our core business, which could have an adverse effect on our financial condition and future prospects. In addition, there can never be a guarantee that joint ventures, mergers or acquisitions will successfully achieve their aims.

We are reliant on our staff

We are reliant on our staff for the management, operation, creation, maintenance, repair and upgrading of our business, operations and systems. Our ability to recruit or adequately replace, retain and motivate suitably qualified and experienced staff is important for our ongoing success. Staff who are EU nationals currently make up an important portion of our total workforce, with a significant number holding skilled technical/IT or operational roles. As a result of Brexit, their rights to continue working in the U.K. are currently uncertain. Furthermore, it may in the future become more difficult for us to recruit or retain such members of staff and the U.K. labour market may become more competitive. An inability to recruit and retain sufficient personnel of the right calibre or the incurring of significant costs in order to do so may have an adverse effect on our financial condition and future prospects. See "*—Political, operational and economic uncertainty arising from the outcome of the recent referendum on the U.K.'s membership in the EU could adversely impact the Group's business, results of operations, financial condition and prospects"* above.

We have had good relations with our workforce to date. We have a well-established employee council which is used as a consultative forum and channel for communications between employees and management. We also recognise the Union of Shop, Distributive and Allied Workers ("USDAW")

as the trade union for the majority of hourly paid employees in the U.K. and have a positive relationship with them. Our agreement with USDAW sets out clear steps that both parties must follow in the event of a dispute and it includes an escalation process via senior management. Any significant disagreements between us and our employees could have an adverse effect on our financial condition and future prospects.

Changes in tax rates or laws, tax liabilities or tax accounting rules could affect future results.

Changes in taxation rates or law or interpretation of tax law, or misinterpretation of the law or any failure to manage tax risks adequately could result in increased charges, financial loss, including interest and penalties, and reputational damage, which may have an adverse effect on our financial condition and future prospects. Various products we sell, including, in particular, alcohol and tobacco, are subject to varying types of taxes including VAT and duty. The level of these taxes and duties can be changed by the government at very short notice. A material change in the level of taxes and duties levied on these products could have a significant adverse effect on the sales, profits and financial condition of the Group. We agree with HMRC, on an annual basis, a blended rate of VAT we pay on our delivery charges. Any failure to continue to make such an agreement with HMRC, or a failure to agree a rate that meets our expectations, may have an adverse effect on our financial condition and future prospects.

The minimum wage may continue to increase and changes to wage regulations could have an impact on our future results of operations

A significant number of our employees are paid at rates related to the National Minimum Wage and National Living Wage. These wage rates are expected to rise in the future. The extent of these further increases in the National Minimum Wage and National Living Wage may adversely affect our results of operations and financial condition.

Despite our efforts to achieve ever greater efficiencies, our automated warehouses and delivery trucks require intensive labour. Our ability to meet our labour needs, while controlling wage and labour-related costs, is subject to numerous external factors, including the availability of qualified persons in the workforce in the local markets in which we are located, unemployment levels within those markets, prevailing wage rates, changing demographics, health and other insurance costs and changes in employment and labour laws. Such laws related to employee hours, wages, job classification and benefits could significantly increase operating costs. In the event of increasing wage rates, if we fail to increase our wages competitively, the quality of our workforce could decline, causing our customer service to suffer, while increasing wages for our employees could cause our profit margins to decrease. If we are unable to hire, retain, and train employees capable of meeting our business needs and expectations, our business and brand image may be impaired. Any failure to meet our staffing needs or any material increase in turnover rates may have an adverse effect on our financial condition and future prospects.

We have considerable carried forward tax losses which we may be unable to use

We had approximately £268.6 million of unutilised carried forward tax losses as at the end of FYE 2016. Tax rules prevent the use of such losses where there is a major change in the nature or conduct of a trade carried on by a company in the three years before or after a change in ownership of the company; draft legislation has been published which will, if enacted without amendment, extend the relevant period to five years after the change in ownership. To date, we have utilised our brought forward tax losses to settle the large majority of the Group's U.K. corporation tax liabilities. However, draft legislation has been published which will, if enacted without amendment, limit our ability to use these losses against profits of the Group exceeding £5 million. Moreover, if there were a major change in the nature or conduct of our trade, there may be an adverse impact on our future tax charge.

In addition, following a reorganisation of the Group in 2014 our carried forward tax losses were split and are now held across a number of our subsidiaries. There is a risk that HMRC may challenge the allocation of these carried forward tax losses. Further, these carried forward tax losses may be reduced or lost entirely or we may be unable to use them to offset future tax charges associated with the profits generated across the Group's subsidiaries. This could have an adverse impact on our future tax charge, financial condition and future prospects.

Future changes in accounting standards may result in increased levels of debt being recognised on our balance sheet

Our consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and as endorsed by the European Union ("IFRS"). From time to time, the IASB issues new accounting standards or amendments to existing standards. The IASB issued IFRS 16, "Leases" ("IFRS 16") a new standard on lease accounting in 2016 that replaces IAS 17, "Leases", with an effective date for annual periods beginning on or after 1 January 2019. A consequence of this new standard is to recognise substantially all leases on the consolidated balance sheet and thereby bring an end to off-balance sheet lease accounting. We have a large number of operating lease commitments that are currently not included on our consolidated balance sheet (FYE 2016: £375.7 million commitment). When this new lease accounting standard becomes effective, it is expected that substantially all operating leases will be recognised on our consolidated balance sheet, which would result in an increase in our reported debt obligations. These and any other future changes in accounting standards could have a material adverse effect on our financial condition and future prospects.

Our use of open source software may restrict our ability to exploit our proprietary software and IT systems and exposes us to certain risks

Our key proprietary software and critical IT systems incorporate significant elements of "open source" software, the use of which by us is subject to the terms of applicable licences. Open source software is typically licensed for use at no initial charge on terms which allow modification and distribution of the software by the licensee. However, licence terms may impose on the user compliance requirements and obligations to disclose modifications we have made to the software to third parties. Our ability to realise fully the commercial benefits of any such software may be restricted because:

- open source licences may be drafted in legally ambiguous language and may result in unanticipated consequences or obligations regarding our software;
- due to the requirements to licence modified software, our competitors or licensees may have access to information which may help them to develop competitive products;
- open source software is available to the public for anyone to access and utilise, including our competitors; and
- it may be difficult for us to identify accurately the developers of the open source code (who may be licensors of the software) and whether the licensed software infringes third party intellectual property rights.

Furthermore, to the extent we use open source software we face certain more general risks which apply to any organisation making use of such software. Our use of GNU General Public Licence ("GPL") software could subject certain portions of our proprietary software to GPL requirements, including an obligation on us to disclose that software to third parties and to permit them to use the software free of charge. Finally, open source licences typically present onerous compliance requirements and failure to observe these may result in litigation or the loss of the right to use the software which may have an adverse effect on our financial condition and future prospects. Although we are not aware that we have breached any of these compliance requirements, and no third party has claimed that software owned by us should be made available on an open source basis, any of the risks or restrictions relating to open source software mentioned above could have an adverse impact on our financial condition and future prospects.

Our IT systems are interdependent and a failure in one may disrupt the efficiency and functioning of our operations

Our business model relies on the complex integration of our Webshops, through which all customer orders (other than those placed via Ocado mobile applications) are placed, the highly automated CFCs and goods handling equipment and the order fulfilment and delivery operations. Our business is therefore reliant on numerous systems to manage the entire process from the receipt and processing of goods at our CFCs to the picking, packing and delivery of these goods to customers in one-hour delivery slots. The different IT systems are dependent on each other to be able to complete

their processes. Therefore, a failure of any of the core IT systems may result in failures of other IT systems as well, which in turn could result in customer orders being unable to be captured on our Webshops or processed through our CFCs.

We rely to a significant degree on the efficient and uninterrupted operation of our computer and communications systems and those of third parties, including the internet. Customer access to our Webshops and the speed with which a customer navigates and makes purchases on our Webshops affect our sales and the attractiveness of our services. Any failure of the internet generally or any failure of current or new computer and communication systems could impair the value of orders, the processing and storage of data and the day-to-day management of our business. While we do have disaster recovery and business continuity contingency plans, no assurance can be given that, if a serious disaster affecting our business, systems or operations occurred such plans would be sufficient to enable us to recommence trading without loss of business. Furthermore, we have, from time to time, experienced operational defects or failures in our systems and technologies which have resulted in order errors such as missing items, cancelled orders and delays in deliveries. We expect operational failures to continue to occur from time to time due to a combination of one or more of the following: electro-mechanical equipment failures, computer server or system failures, network outages, software performance problems or power failures.

The efficient operation of our business systems and IT is critical to attracting and retaining customers. If we are unable to meet customer demand or service expectations due to one or more of the aforementioned issues arising, deterioration in our financial condition and future prospects may occur.

We may face online and other security breaches including hacking and vandalism, of our own systems or of our service providers and suppliers

We rely on encryption and authentication technology to provide the security necessary to effect the secure transmission of information from our customers, such as credit or debit card numbers (although as part of our PCI-DSS compliance we do not store this data but use third party payment providers). At the same time, we increasingly rely on cloud computing and other technologies that result in third parties holding significant amounts of Group and customer information on our behalf. We cannot guarantee absolute protection against unauthorised attempts to access our or these third parties' IT systems, including third party applications that may interfere with or exploit security flaws in our or these third parties' products and services. Viruses, worms and other malicious software programs could, among other things, jeopardise the security of information stored in a user's computer or in our or these third parties' computer systems, affect the availability of our or these third parties' computer systems or attempt to change the internet experience of users by interfering with our ability to connect with users. In addition, in the past, we have also experienced system intrusion attempts through non-cyber means, including through fraudulent phone calls. We have seen an increase over the past several years in the frequency and sophistication of attempts to compromise the security of the types of IT and other systems we use. If any compromise in our, or the third party suppliers we use, security measures were to occur and our, or their, efforts to combat such a breach are unsuccessful, our reputation may be harmed leading to an adverse effect on our financial condition and future prospects.

The Group may be subject to privacy or data protection failures, including in respect of the significantly more onerous obligations under the General Data Protection Regulation that will apply from 25 May 2018

We are subject to regulation regarding the use of personal data and debit and credit card data. We collect, process and in some cases store personal data of customers and employees (some of which may be sensitive) as part of our business and therefore must comply with strict data protection and privacy laws. Such laws restrict our ability to collect and use personal information relating to customers including the use of that information for marketing purposes. We rely on our own employees to maintain our databases and seek to ensure that procedures are in place to ensure compliance with data protection regulations.

Furthermore, the GDPR entered into force on 24 May 2016 and will apply in all EU member states from 25 May 2018, which is before the date on which the U.K. is expected to leave the EU. While the

requirement for us longer term to comply with this regulation is currently uncertain due to Brexit, see "*Political, operational and economic uncertainty arising from the outcome of the recent referendum on the U.K.'s membership in the EU could adversely impact the Group's business, results of operations, financial condition and prospects"* above, U.K. authorities have indicated that they expect that the U.K. will continue to comply with GDPR requirements and we will continue to review and develop existing processes to ensure that customer personal data is processed in compliance with the GDPR's requirements, to the extent that they are applicable to us, and we may be required to expend significant capital or other resources and/or modify our operations to meet such requirements, any or a combination of which could have a material adverse effect on our business, financial condition and results of operations. The design of our proprietary software systems that is licensed to corporate partners will also need to be compliant with GDPR, irrespective of whether the U.K. continues to enforce GDPR compliance.

Notwithstanding such efforts, we are exposed to the risk that these data could be wrongfully appropriated, lost or disclosed, or processed in breach of data protection regulation. If we fail to store or transmit customer information and payment details online in a secure manner, or if any loss of personal customer data were otherwise to occur, we could face liability under data protection laws or sanctions by card merchants. This could also result in the loss of the goodwill of our customers and deter new customers which could have an adverse effect on our financial condition and future prospects.

We rely on the Waitrose brand and Waitrose own-label products and our long-term sourcing agreement expires in 2020

Since we commenced operations, we have had a sourcing agreement with Waitrose (part of the John Lewis Partnership). It was last updated in 2010 and will terminate on 1 September 2020, although either party may terminate the agreement early by giving 18 months' notice. This agreement aggregates our respective product volumes to improve supply terms, and allows us to sell Waitrose branded products on Ocado.com. In return, we pay Waitrose a sourcing fee under the 2010 Agreement and deal directly with suppliers for the majority of the range. Further details of the arrangements under which Waitrose sources and supplies products for the Group are set out in "*Business—Our Retail Business—Relationship with Waitrose and the sourcing of products".*

Our reputation as a supplier of high quality products is based, at least in part, on our relationship with Waitrose and our ability to supply Waitrose own-label products. If, for any reason, Waitrose ceased to supply us with such products during the term of the Sourcing Agreement or the Sourcing Agreement was to terminate or expire and not be renewed, or if Waitrose was to suffer reputational damage which impacted on the Waitrose brand, there could be an adverse effect on our financial condition and future prospects.

In FYE 2016, 26.7% of our product sales constituted sales of Waitrose own-label products (FYE 2015 28.2%). We are precluded from selling the own-label products of any U.K. competitor of Waitrose for the duration of the Sourcing Agreement, except during the final year of the agreement if any notice of termination has been served. If the Sourcing Agreement was to end and we wished to replace the Waitrose own-label products in our range we would need to find or create a replacement range of own-label products. It may not be possible to acquire the rights to an own-label product range from another supermarket if the Sourcing Agreement ends. As of FYE 2016, we stocked approximately 760 of our Ocado own-label products, and are seeking to further extend this range, but there is nevertheless no assurance that we will be able to continue to develop our own-label range. Such a failure to continue to develop a sufficient Ocado own-label range could adversely affect our financial condition and future prospects and the failure to have a full range of Ocado own-label products by any termination of the Sourcing Agreement would have a material adverse effect on our financial condition and future prospects.

The Sourcing Agreement may not be renewed following its ultimate expiry

The Sourcing Agreement will expire on 1 September 2020, although either party may terminate the agreement early by giving 18 months' notice. As at the date of this Offering Memorandum, no party has given notice to terminate. Although we would have considerable notice of Waitrose's intention to

cease sourcing products for us in these circumstances and would have the opportunity to develop our own relationships with suppliers (which to some extent we have done already and continue to do), the early termination or the expiry of the Sourcing Agreement would, at the very least, result in us ceasing to be able to supply Waitrose own-label products which, for the reasons described above, could have an adverse effect on our financial condition and future prospects.

Even if the Sourcing Agreement was renewed or extended so that it did not expire on 1 September 2020, we may not be able to agree terms with Waitrose which are as favourable to us as the terms on which the current arrangements were concluded. Any deterioration in the terms on which we and Waitrose contract could have an adverse effect on our financial condition and future prospects.

The Sourcing Agreement contains minimum sourcing provisions which restrict the growth of our Ocado own-label range and independent sourcing capability and negotiation know-how

Waitrose acts as our sourcing agent for the negotiation of, and entry into, our supply requirements meaning we are then able to place our orders for goods on the same terms as those obtained by Waitrose. However, the Sourcing Agreement contains provisions which restrict the extent to which we can source products other than from Waitrose, and the extent to which our range of Ocado own-label products may be expanded. The agreement broadly requires us to source products (or treat as having been sourced for the purposes of calculating the fee to Waitrose) representing at least 80% of our third-party branded grocery sales (by revenue) through Waitrose, and likewise that no more than 30% of our combined Ocado and Waitrose own-label sales (by revenue) comprise sales of Ocado own-label products.

These restrictions constrain the growth of our Ocado own-label products, the strengthening of the Ocado brand and also limit the development and efficiency of our own sourcing capability and negotiation know-how. We are also dependent to a large extent on the negotiating ability, sourcing terms and purchasing power that Waitrose is able to achieve. While we do not believe that these restrictions and this dependence have had a significant impact on the growth of our business or the intended expansion of the range of products we stock, the minimum sourcing restrictions may in the future prove to have an adverse effect on our financial position and prospects.

The Sourcing Agreement could be terminated early by Waitrose/John Lewis following a change of control of the Group (and in certain other circumstances)

The Sourcing Agreement allows any of the parties to terminate the arrangements by giving three months' notice if certain competitors of Waitrose or John Lewis gain control of our Board or acquire 50% or more of the issued share capital of the Company. As a publically traded company listed on the London Stock Exchange, we have no control over the acquisition and disposal of our Ordinary Shares. Accordingly, a relevant competitor of Waitrose or John Lewis could acquire 50% or more of the issued share capital of the Company, which could result in the early termination of the Sourcing Agreement by John Lewis or Waitrose. Following termination in these circumstances, we are obliged to pay Waitrose the lesser of £40 million and 4% of our market capitalisation.

If Waitrose fails to source products for us, we may be unable to replace the Sourcing Agreement on acceptable terms or at all

Under the Sourcing Agreement, Waitrose negotiates terms of supply (primarily product specification and cost prices) with various suppliers on behalf of both itself and us. If the arrangements with Waitrose come to an end, we will have to agree new terms (for example, as to branding of products) with existing suppliers or find appropriate suppliers, as well as negotiate prices ourselves. This will require us to engage a substantial number of additional personnel in, at a minimum, our retail and buying teams and our food technology team. While certain suppliers will continue to supply us without Waitrose as an intermediary, there can be no assurance that a sufficient number will agree to do so nor that we will be able to find an adequate number of alternative suppliers. In addition, we may not be able to obtain prices that are equivalent to the prices obtained by Waitrose, including as a result of our and Waitrose's combined scale.

In FYE 2016, approximately 6% by value of the goods that we sell were delivered to us via the Waitrose logistics infrastructure (FYE 2015: 8%), as provided for in the Sourcing Agreement. The

balance of products are delivered directly to our CFCs by the relevant supplier or manufacturer. If the Sourcing Agreement was to end, or if Waitrose was unable or unwilling to source products for us during the course of the current term of the Sourcing Agreement (if, for example, there was a failure in Waitrose's logistical infrastructure), we would have no immediately available infrastructure for sourcing directly those products sourced via the Waitrose infrastructure.

Any disruption to the Waitrose supply system may disrupt the availability of products to our customers. While this has happened infrequently in the past, it remains a risk to which we are exposed. Although the Sourcing Agreement provides that on the occurrence of a failure in the Waitrose supply system those goods that are available must be apportioned between Waitrose and us *pro rata* to each party's "good faith requirements", there can be no guarantee that any such supply will be sufficient to meet our requirements or that such supply will occur in a timely manner, on acceptable terms or at all.

Therefore, any failure of Waitrose to supply goods to us could cause a temporary or, in the case of certain products, permanent, inability for us to stock and sell those goods, which could have an adverse effect on our financial condition, results of operations and future prospects.

We are vulnerable to fluctuations in the availability and price of food items

We and our suppliers purchase significant quantities of food items that are subject to fluctuations in availability and price. Such fluctuations are attributable to, among other things, changes in supply and demand for crops or other commodities, changes in tariffs on imported foods, energy prices, and government-sponsored agricultural and livestock programs. The availability and the price of vegetables and other agricultural commodities, including meat and fish, can be particularly volatile. General economic conditions, unanticipated demand, problems in production or distribution, natural disasters, adverse weather conditions during the growing and harvesting seasons, plant and livestock diseases and local, national or international quarantines can also adversely affect availability and prices of commodities in the long and short terms. In the future, we may be affected by the imposition of national or international quotas regulating, for example, volumes of raw materials, especially on fish and seafood products. If the U.K. government or a regulatory regime establishes such measures, the price of raw materials could increase, and our gross margins could be affected.

Although our purchasing power through our Sourcing Agreement with Waitrose reduces our exposure to price fluctuations, our ability to avoid the adverse effects of pronounced, sustained price increases and food shortages is limited. As part of our strategy, we aim to further enhance our profitability by using our purchasing power to achieve more favourable pricing terms from our suppliers and by closely monitoring our operating expenses, as well as seeking to optimize our supplier and product mix. Our failure to maintain or improve pricing terms from our suppliers or to maintain profitability as our business grows would have an adverse effect on our profit and EBITDA margins in the future.

Increases in prices or scarcity of food items could increase our costs and disrupt our operations. In addition, our ability to pass along higher costs through price increases to our customers is dependent upon competitive pricing conditions in our industry and limited by certain initiatives such as our *Tesco Price Match* strategy. However, even if we are able to pass increased costs on to our customers, the higher prices of our products might lead to reduced consumer demand or negative changes in the product mix.

The Morrisons Operating Agreement contains exclusivity provisions

In May 2013, we entered into an agreement (as amended by the 2016 Extension described below, the "Morrisons Operating Agreement") with Wm Morrisons Supermarkets plc ("Morrisons"), a U.K. supermarket, to provide certain technology, logistics and distribution services to enable Morrisons to launch and develop its online grocery business utilising our Dordon CFC. In August 2016, we amended the Morrisons Operating Agreement (the "2016 Extension") by entering into a 30-year agreement with Morrisons to share additional capacity in our forthcoming Erith CFC and licence the store pick module of our Solutions Business. Under the terms of our arrangement with Morrisons, we provide the entire end-to-end solution to facilitate the operation of their online grocery business, from inventory procurement to order fulfilment, at our Dordon and Erith CFCs.

There are two principal elements of the Morrisons Operating Agreement: the technology provision and services arrangement, and the sale and leaseback of property and equipment. Under the technology provision and services arrangement, we provide Morrisons with a range of services enabling Morrisons to launch its own online grocery offering out of the Dordon CFC. Under the sale and leaseback of property and equipment arrangement, our interests in the land and buildings of the Dordon CFC were acquired by Morrisons at book value. See "*Business—Our Solutions Business—Relationship with Morrisons"* below for further details on the terms of this arrangement. Under this arrangement, Ocado has available for its use 50% of the capacity of the Dordon CFC. Should the Erith CFC become insufficient for Morrisons' projected needs, the parties would expect to agree to develop new CFCs, to be built and operated by Ocado for either joint or sole use. The capital and operating costs of any joint-use CFCs will be shared between the parties on terms that would be agreed at the time.

The Morrisons Operating Agreement includes certain exclusivity provisions which limit Morrisons to operating its online business through us but also limit us to only providing our online grocery fulfilment services in the U.K. to Morrisons and ourselves. While the 2016 Extension reduces this restriction so that from the date the store pick solution is rolled out beyond the initial pilot which is expected to occur at the end of this financial year, we will be able to provide services to certain U.K. grocery retailers previously excluded (although a number of important U.K. supermarkets will remain excluded), this restriction could still have an adverse impact on our ability to win new customers and further commercialise our Solutions Business technology and may have an adverse effect on our business model and future prospects.

The management and operation of the Morrisons Operating Agreement require commitment of the Group's management time and our resources

Management and operation of the Morrisons Operating Agreement require considerable commitment of the management time and resources of the Group. This commitment will vary over the term of the Morrisons Operating Agreement and while it has reduced following the initial implementation period it is likely to increase again as we work with Morrisons to deliver on the commitments agreed to under the 2016 Extension, particularly in relation to the continued development and construction of the Erith CFC.

The fee structure agreed to with Morrisons under the Morrisons Operating Agreement will reimburse the Group for such management time (plus a margin), allowing the Group to recruit more personnel as necessary, and also contribute to future research and development costs of the Group, but such commitment and focus by the Group on meeting its contractual obligations to Morrisons under the Morrisons Operating Agreement may nevertheless impact on the running of our existing business and ability to develop new business. Accordingly, such commitment of management time and Group resources may have an adverse effect on the Group's future prospects.

A significant requirement under the 2016 Extension is the successful roll-out of the store pick solution that is currently in the process of being developed and tested. Any failure in this development or testing in a timely manner or if the store pick solution turns out to be less successful that we anticipate this could have an adverse effect on our financial condition and future prospects, including on our ability to meet our contractual obligations to Morrisons under the 2016 Extension. See "*Business—Our Solutions Business—The store pick solution"*

The Morrisons Operating Agreement could be terminated early, and even if the 2016 Extension is not terminated a delay to deliver the Erith CFC may harm our reputation and the fees we anticipate earning

The Morrisons Operating Agreement and other commercial arrangements with Morrisons allow Morrisons to terminate the agreements by giving not less than four (but not more than four and a half) years' notice if certain competitors of Morrisons gain control of our Board or acquire 50% or more of the issued share capital of the Issuer. Following Morrisons giving such a notice, Morrisons would be entitled to procure equivalent services from third parties and we would cease to be Morrisons' exclusive supplier of online grocery fulfilment services. As a publically traded company listed on the London Stock Exchange, we have no control over the acquisition and disposal of our Ordinary Shares. Accordingly, a relevant competitor of Morrisons could acquire 50% or more of the issued share capital

of the Issuer, which could result in the early termination of the Morrisons Operating Agreement and other commercial arrangements by Morrisons. Following termination in these circumstances, we would be obligated to buy Morrisons' 50% share of the joint venture company that owns the MHE at the Dordon CFC and to repay its 30% contribution of the initial building costs at the Erith CFC.

The 2016 Extension also allows Morrisons to terminate the agreement if the construction of the Erith CFC is not completed by 28 February 2019. Following termination in these circumstances, we would be obligated to pay back Morrisons its 30% contribution of the initial building costs at the Erith CFC. See "—We *may not successfully replicate our business systems to new CFCs on time and within budget".* Even if the 2016 Extension was not terminated, a delay to deliver the Erith CFC may harm our reputation and would have a negative impact on the fees we anticipate earning from Morrisons for their use and our management of the site once it is operational. This could in turn have a material adverse effect on our business, financial condition and results of operations. See "*Business—Our Solutions Business—Relationship with Morrisons".*

The Group competes directly with Waitrose.com and Morrisons.com who are both also our key contractual counterparties

Waitrose's own online grocery business, Waitrose.com, competes directly with us. The success or otherwise of Waitrose.com may affect the willingness of Waitrose to extend or renew the Sourcing Agreement beyond its scheduled expiry in 2020, or to renew it on terms that are less favourable than at present. Moreover, such success or otherwise may result in Waitrose being less willing to cooperate under the Sourcing Agreement because it may consider that to do so will compromise its own business. While Waitrose would remain subject to contractual obligations under the Sourcing Agreement, the failure of our key supplier to cooperate fully in its relationship with the Group could have an adverse effect on our financial condition and future operations.

Morrisons.com also competes directly with us. By assisting Morrisons in accelerating the launch of its online business, and by doing so in a way we believe to be more efficient than the online offering that Morrisons might otherwise have developed, we created and have assisted and are continuing to assist a direct competitor for our business. We do not believe there currently to be a significant overlap between the demographics of Ocado.com's customers and those of the customers of Morrisons.com and believe that the benefits for the Group of the arrangement outweigh the disadvantages of creating and assisting a competitor. If, however, these beliefs prove to be inaccurate in the future the financial condition and future prospects of the Group may be adversely affected.

Our business arrangements with key competitors could expose us to investigations, proceedings or enforcement actions by anti-trust or regulatory authorities

As Waitrose.com and Morrisons.com are both key competitors and contractual counterparties of ours, we have extensive information barriers, a rolling Group training program and dedicated legal personnel in place in order to ensure that we are in compliance with our anti-trust obligations. There can be no assurance that these procedures will be successful in ensuring that we comply with our obligations and if these procedures prove unsuccessful, then a breach could have a negative impact on our key relationships with either or both of Waitrose or Morrisons or lead to an investigation by, or proceeding before, an anti-trust or regulatory authority, which may have an adverse effect on our financial condition and future operations.

We may need to continue to raise substantial additional funding and a failure to do so may restrict our development

Our continued growth may depend on our ability to access funding for further development. Our funding requirements and ability to raise funding will depend on numerous factors, including our profitability, cash generation and levels of investment and our ability to maintain and expand the penetration of our markets in which we operates. Our ability to raise funding will also be dependent on the general availability of credit. We will continue to incur significant capital and operating expenses in coming years in connection with our planned expansion. These expenses include:

- costs of additional expansion (including plant and machinery) to increase capacity at our existing CFCs;

- land acquisition costs for any new CFCs, GMDC and Spokes and the related site preparation and external works costs;
- all of the costs associated with developing new CFCs and Spokes, such as professional fees, building and related fit-out costs, IT costs and the costs of plant and machinery;
- increased vehicle costs as the delivery fleet is expanded;
- increased staff costs as the staff headcount grows to meet the demands of the expanded business; and
- increased costs associated with the development and protection of new intellectual property.

Our longer term capital needs will be dependent on the actual cost of our expansion programme, especially the fourth CFC in Erith which is currently under construction and which we expect to become operational in financial year 2018 and any additional CFCs we build, the timing of the start of operations at our additional CFCs and their success. We may need to raise capital in addition to that currently anticipated to fund our expansion. Any such required additional funding may not be available to us on favourable terms when required, or at all.

If we are unable to obtain sufficient capital when needed, we may be forced to alter our business strategy, or delay or abandon some or all of our planned expansion. Any of these events would have an adverse effect on our development, growth, financial condition and prospects. Furthermore, any additional equity fundraising in the capital markets may be dilutive for Shareholders and additional debt-based funding may bind us to restrictive covenants, increase interest burden and curb our operating activities and ability to pay potential future dividends even when profitable.

Litigation and other adversarial actions in the ordinary course of business could have a material adverse effect on our business

At any given time, we may be a party to litigation or be subject to non-litigated claims arising out of the normal operations of our business. Although we are not currently a defendant in any material litigation and do not expect any liability arising from any of the existing legal proceedings to have a material impact on our results of operations, liquidity, capital resources or financial position, we may be subject to such litigation in the future. In addition, we may be subject to other disputes, claims and complaints, including adversarial actions, by customers, employees, suppliers, insurers and others in the ordinary course of business. Significant claims or a substantial number of small claims may be expensive to defend, may divert the time and focus of management away from our operations and may result in our having to pay monetary damages, any of which could have a material adverse effect on our business, financial condition and results of operations. In addition, adverse legal publicity or substantial litigation against us could negatively impact our reputation, even if we are not found liable, which could also have a material adverse effect on our business, financial condition and results of operations.

Our business could be negatively affected as a result of actions of activist stockholders

As a publicly listed company, we may be subject to shareholder activism. Responding to actions by activist stockholders can generate negative press and be costly and time-consuming, disrupting our operations and diverting the attention of management and our employees. Such activities could interfere with our ability to execute our strategic plan. In addition, a proxy contest for the election of directors at our annual meeting would require us to incur significant legal fees and proxy solicitation expenses and require significant time and attention by management and our board of directors. The change of control provision in the Indenture will not address a change in the majority of the board of directors that might result from a proxy contest, and so would not trigger the right to a mandatory offer of redemption to the holders.

Exchange rate fluctuations may adversely affect our results of operations

A material amount of the machinery used at our CFCs, including MHE, is sourced from suppliers or subcontractors located overseas. We have and expect to continue to contract with these suppliers for the supply of machinery to continue to develop and construct the fourth CFC and to carry out the expansion of capacity at our current CFCs. These suppliers will generally be paid in local currency, while our revenues are in pound sterling. Construction costs of the fourth CFC are currently estimated

at approximately £180 million over 4 years. The announcement of the Brexit referendum result resulted in a significant weakening of the pound sterling against the U.S. dollar, the euro and other major currencies. Any further depreciation of pound sterling will increase the pound sterling equivalent of the price we pay for imports and may have a material impact on our financial condition and future prospects.

A failure in our cold chain could lead to unsafe food conditions and increased costs

"Cold chain" requirements setting out the temperatures at which our ingredients and products are stored and delivered are established both internally and by statute in order to help secure the safety of our food products. Our cold chain is maintained from the moment products arrive at, or are frozen/chilled by, our suppliers, through our products' transportation phase and ultimately to the time of delivery. These standards protect the quality, freshness and safety of our products. A failure in the cold chain could lead to food contamination, risks to the health of our customers, fines by the Environmental Health Officer and the Trading Standards Officer and damage to our brand and reputation, each of which could subsequently affect our business, financial condition and results of operations.

RISKS RELATING TO OUR DEBT PROFILE, STRUCTURE, THE NOTES AND THE COLLATERAL

Risks relating to debt

As at 30 April 2017 our External Net Debt amounted to £(98.7) million and, on a *pro forma* basis giving effect to the Financing Transactions and the use of proceeds thereof (without the deployment of funds raised for general corporate purposes), £(98.7) million. Subject to certain conditions, we may also incur or guarantee new borrowings. Our level of debt may affect our financing capacity as well as the financial costs thereof. We may be required to devote a significant portion of our cash flow to meet our debt service obligations, which may result in a reduction of funds available to finance our operations, capital expenditures, organic growth initiatives or acquisitions. In particular, our financial expenses may increase in the event of a material increase in interest rates, inter alia in relation to the unhedged portion of our debt. We may therefore be at a disadvantage compared to competitors that do not have a similar level of debt.

We cannot assure you that our business will generate sufficient cash flow from operations, that currently anticipated cost savings, revenue growth and operating improvements will be realised or that future debt or equity financing will be available to us in an amount sufficient to enable us to pay our debts when due, including the Notes and any future debt incurred, or to fund our other liquidity needs, including the repayment at maturity of the then outstanding amount under the Amended and Restated Senior Credit Facility which matures in 2022.

If our future cash flow from operations and other capital resources (including borrowings under the Amended and Restated Senior Credit Facility) are insufficient to pay our obligations as they mature or to fund our liquidity needs, we may be forced to:

- reduce or delay our business activities and capital expenditures;
- sell assets or equity;
- obtain additional debt or equity capital;
- forgo opportunities such as acquisition of other businesses; or
- restructure or refinance all or a portion of our debt, including the Notes, on or before maturity.

We cannot assure you that we would be able to accomplish any of these alternatives on a timely basis or on commercially reasonable terms, if at all. At the maturity of the Notes or any other debt which we may incur, if we do not have sufficient cash flows from operations and other capital resources to pay our debt obligations, or to fund our other liquidity needs or we are otherwise restricted from doing so due to corporate, tax or contractual limitations, we may be required to refinance our debt. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business, financial condition and results of operations. The type, timing and terms of any future financing will depend on our cash needs and the prevailing conditions in the financial markets. If we are unable to refinance all or a portion of our debt or obtain such refinancing on terms acceptable to us, we may be forced to reduce or delay our business

activities or capital expenditures, sell assets or raise additional debt or equity financing in amounts that could be substantial. In addition, the terms of the Notes and any future debt may limit our ability to pursue any of these measures.

If we are unable to satisfy our obligations through alternative financing, we may not be able to satisfy our debt obligations, including under the Notes. In that event, borrowings under other debt agreements or instruments that contain cross acceleration or cross default provisions, including the Notes and the Amended and Restated Senior Credit Facility Agreement, may become payable on demand, and we may not have sufficient funds to repay all our debts, including the Notes.

We are subject to contractual obligations which limit our operating and financial flexibility

Our ability to meet our obligations, in particular complying with the restrictions and contractual obligations, contained in the Amended and Restated Senior Credit Facility Agreement and the Indenture or to pay interest on our loans or the Notes or to refinance or repay our loans or the Notes in accordance with the terms of our debt agreements will depend on the future operating performance, which may be affected by a number of factors (general economic conditions, conditions in the debt market, legal and regulatory changes, etc.), some of which are beyond our control. If at any time we have insufficient cash to service our debt, we may be forced to reduce or delay acquisitions or capital expenditures, sell assets, refinance our debt or seek additional funding, which may adversely affect our business or financial condition. We may not be able to refinance our debt or obtain additional financing on acceptable terms.

We are subject to restrictive covenants which limit our operating and financial flexibility

The Amended and Restated Senior Credit Facility Agreement and the Indenture will contain covenants which impose significant restrictions on the way we can operate, including restrictions on our ability to:

- incur or guarantee additional debt and issue preferred stock;
- make certain payments, including dividends or other distributions;
- make certain loans, investments or acquisitions, including participating in joint ventures;
- prepay or redeem subordinated debt;
- create or incur restrictions on the ability of our subsidiaries to pay dividends or to make other payments to us;
- issue or sell redeemable preferred shares;
- engage in certain transactions with affiliates;
- agree to limitations on the ability of our subsidiaries to make distributions;
- sell assets, consolidate or merge with or into other companies;
- sell or transfer all or substantially all of our assets or those of our subsidiaries on a consolidated basis;
- issue or sell share capital of certain subsidiaries; and
- create or incur certain liens.

All of these limitations will be subject to significant exceptions and qualifications. See "*Description of the Notes*" and "*Description of Other Debt*". The covenants to which we are subject could limit our ability to finance our future operations and capital needs and our ability to pursue business opportunities and activities that may be in our interest. The restrictions contained in the Amended and Restated Senior Credit Facility Agreement and the Indenture are not identical, and either could affect our ability to operate our business and may limit our ability to react to market conditions or take advantage of business opportunities as they arise. For example, such restrictions could adversely affect our ability to finance our operations, make strategic acquisitions, investments or alliances, restructure our organisation or finance our capital needs.

Any future debt may include similar or other restrictive terms. These restrictions could materially and adversely affect our ability to finance our future operations or capital needs or to engage in other business activities or consummate transactions that may be in our best interests.

In addition to limiting our flexibility to operate our business, our failure to comply with the covenants under the Amended and Restated Senior Credit Facility Agreement and the Indenture, including as a result of events beyond our control, could result in an event of default under the terms of our other financing agreements and cause all the debt under these agreements to be accelerated. If this were to occur, it could materially and adversely affect our financial condition and results of operations and we can make no assurance that we would have sufficient assets to repay our debt.

We may incur substantially more debt in the future, which may make it difficult for us to service our debt, including the Notes, and impair our ability to operate our businesses

We may incur substantial additional debt in the future. Although the Indenture and the Amended and Restated Senior Credit Facility Agreement will contain restrictions on the incurrence of additional debt, these restrictions are subject to a number of significant qualifications and exceptions and, under certain circumstances, the amount of debt that could be incurred in compliance with these restrictions could be substantial and secured. Under the Indenture, in addition to specified permitted debt, we will be able to incur additional unsecured debt so long as our fixed charge coverage ratio (as defined in the Indenture) is at least 2.0 to 1.0, and any additional secured debt (which may be secured on a junior priority basis or *pari passu* with the debt securing the Notes and the Amended and Restated Senior Credit Facility) so long as our consolidated senior secured leverage ratio (as defined in the Indenture) is less than 3.50 to 1.0. The terms of the Indenture will permit us to incur future debt that may have substantially the same covenants as, or covenants that are more restrictive than, those of the Indenture. Moreover, some of the debt we may incur in the future could be structurally senior to the Notes and may be secured by collateral that does not secure the Notes. In addition, the Indenture and the Amended and Restated Senior Credit Facility will not prevent us from incurring obligations that do not constitute debt under those agreements. In particular, our non-guarantor subsidiaries may incur substantial additional debt in the future, further increasing the risks associated with our substantial leverage. If any of our non-guarantor subsidiaries incur additional debt, the holders of that debt will be entitled to share ahead of you in any proceeds distributed in connection with any bankruptcy, receivership, foreclosure, dissolution, winding-up, liquidation, reorganisation, restructuring arrangement, administration or other bankruptcy or insolvency proceeding of such subsidiaries. The incurrence of additional debt would increase the leverage-related risks described in this Offering Memorandum.

The Issuer and certain of the Guarantors are holding companies that have no revenue generating operations of their own and will depend on cash from the operating companies of the Group to be able to make payments on the Notes or the Guarantees

The Issuer and certain of the Guarantors are holding companies with no business operations and no assets other than inter-company receivables and the equity interests they hold in each of their subsidiaries. These entities will therefore be dependent upon the cash flow from the operating subsidiaries of the Group in the form of dividends, interest payments on inter-company loans or other distributions or payments to meet their obligations, including their obligations under the Notes and the Guarantees, as well as under the Amended and Restated Senior Credit Facility. The obligations of the subsidiaries of the Issuer under inter-company loans will be subordinated in right of payment to certain existing and future senior debt of such subsidiaries, including obligations under the Amended and Restated Senior Credit Facility. If the subsidiaries of the Issuer do not fulfil their obligations under the inter-company loans and do not distribute cash to the Issuer to make scheduled payments on the Notes, the Issuer will not have any other source of funds that would allow it to make payments to the holders of the Notes. The amounts of dividends and distributions available to the Issuer and the holding company Guarantors will depend on the profitability and cash flows of the operating companies within the Group. The subsidiaries of the Issuer may not, however, be able to, or may not be permitted under applicable law to make dividends, distributions or otherwise make upstream payments or advance upstream loans to their shareholders (including the Issuer and the holding company Guarantors) to make payments in respect of our debt, including the Notes and the Guarantees.

The Notes will be structurally subordinated to the liabilities of non-guarantor subsidiaries and effectively subordinated to liabilities that are secured on assets that do not secure the Notes

Not all of our subsidiaries will guarantee the Notes and our subsidiaries do not have any obligations to pay amounts due under the Notes or to make funds available for that purpose unless they guarantee the Notes. Generally, holders of debt of, and trade creditors of, any of the non-guarantor subsidiaries, including lenders under bank financing agreements, are entitled to payment of their claims from the assets of such subsidiaries before these assets are made available for distribution to the Issuer or any Guarantor, as a direct or indirect shareholder.

Accordingly, in the event that any non-guarantor subsidiary becomes insolvent, is liquidated, reorganised or dissolved or is otherwise wound up other than as part of a solvent transaction:

- the creditors of the Issuer (including the holders of the Notes) and the Guarantors will have no right to proceed against the assets of such non-guarantor subsidiary; and
- the creditors of such non-guarantor subsidiary, including trade creditors, will generally be entitled to payment in full from the sale or other disposal of the assets of such subsidiary before the Issuer or any Guarantor, as a direct or indirect shareholder, will be entitled to receive any distributions from such non-guarantor subsidiary.

As such, the Notes and each Guarantee will be structurally subordinated to the creditors (including trade creditors) and any preferred stockholders of our non-guarantor subsidiaries. As at 30 April 2017, after giving pro forma effect to the Financing Transactions and the use of proceeds thereof (without the deployment of funds raised for general corporate purposes), the non-guarantor subsidiaries would have had no outstanding debt. As of and for the 52 weeks ended 27 November 2016, the non-guarantor subsidiaries accounted for 0.9% of the Group's net assets and (15.3)% of the consolidated Group Adjusted EBITDA. The Indenture, subject to certain limitations, will permit our non-guarantor subsidiaries to incur certain additional indebtedness, which may also be secured on assets that do not secure the Notes. Any of the debt that our non-guarantor subsidiaries incur in the future in accordance with the Indenture will rank structurally senior to the Notes and the Guarantees.

We will require a significant amount of cash to meet our obligations under our debt and to sustain our operations, which we may not be able to generate or raise.

Our ability to make principal or interest payments when due on our debt, including our obligations under the Notes, and to fund our ongoing operations, depends on our performance and our ability to generate cash, which, to a certain extent, is subject to general economic, financial, competitive, legislative, legal, regulatory and other factors, as well as other factors discussed in these "*Risk Factors*", many of which are beyond our control.

An aggregate amount of £295.3 million of total third-party borrowings before financing costs (as at 30 April 2017, after giving pro forma effect to the Financing Transactions and the use of proceeds thereof (without the deployment of funds raised for general corporate purposes)) will remain outstanding. A portion of this total amount, including £45.3 million of total finance lease amounts as at 30 April 2017 (relating principally to vehicle leases), is secured on property or assets that do not form part of the Collateral securing the Notes and the Notes and Guarantees will be effectively subordinated to the extent of the value of the property or assets securing such debt. Additionally, £108.1 million related to the MHE JV Co finance lease is also secured on property or assets that do not form part of the Collateral securing the Notes and the Notes will be effectively subordinated to the extent of the value of the property or assets securing such debt. See "*Description of Other Debt*."

The Notes will only be secured by charges over share capital of the Guarantors, and will not benefit from security over any trade receivables, bank accounts, fixed assets, intellectual property, real property or other property or assets. We may incur additional debt in the future that is secured on property or assets that do not form part of the Collateral. Any debt we incur in the future that is secured on property or assets that do not form part of the Collateral securing the Notes will also be effectively senior to the Notes to the extent of the value of the property or assets securing such indebtedness. In the event of a bankruptcy, liquidation, reorganisation or other winding up, those assets that do not secure the Notes will not be available to pay our obligations on the Notes unless and until the payment in full of any other obligations secured by such assets. You would participate with respect to those

assets ratably with all holders of other unsecured indebtedness that is deemed to be of the same class as the notes, and potentially with other general creditors. Similarly, the Guarantees of the Notes are effectively subordinated to the extent of the collateral that does not secure those guarantees. See "*Description of Other Debt*."

The loans under our Amended and Restated Senior Credit Facility bear interest at floating rates that could rise significantly, increasing our costs and reducing our cash flow

The loans under our Amended and Restated Senior Credit Facility bear interest at floating rates of interest per annum equal to LIBOR, as adjusted periodically (with a zero per cent floor), plus a margin. These interest rates could rise significantly in the future. Although we are permitted to enter into interest rate hedging arrangements in order to mitigate some of the risk associated with fluctuations in these rates, there can be no assurance that hedging will be available on commercially reasonable terms at the relevant time. Under these interest rate agreements, we would be exposed to credit risk in respect of our counterparties. If one or more of our counterparties falls into bankruptcy, claims we have under the hedging agreements may become worthless. In addition, in the event that we refinance our debt or otherwise terminate hedging agreements, we may be required to make termination payments, which would result in a loss. To the extent that interest rates were to increase significantly, our interest expense would correspondingly increase, reducing our cash flow.

We may not be able to finance a change of control offer and the occurrence of certain important corporate events will not constitute a change of control

The Indenture will require us to make an offer to repurchase all outstanding Notes at 101% of their principal amount, plus accrued and unpaid interest, if any, to (but excluding) the date of repurchase upon the occurrence of certain change of control events. Additionally, a change of control under the Amended and Restated Senior Credit Facility Agreement (which includes a different definition of change of control), unless waived by the lenders, would permit any lender under the Amended and Restated Senior Credit Facility to elect to cancel its commitments thereunder and the participation of that lender in all amounts outstanding under the Amended and Restated Senior Credit Facility would become immediately due and payable together with accrued but unpaid interest and all other amounts due to that lender that are accrued and unpaid.

The source of funds for any Notes repurchase or loan repayment required as a result of any such event would be available cash or cash generated from operating activities or other sources, including borrowings, sales of assets, sales of equity or funds provided by our subsidiaries. Sufficient funds may not be available at the time of any such events to make any required repurchases of the Notes tendered and we may not be able to secure access to enough cash to finance the required repurchases of the Notes tendered. Our failure to repay any outstanding amounts under the Amended and Restated Senior Credit Facility upon the occurrence of a change of control event would constitute an event of default under the terms and conditions governing the Amended and Restated Senior Credit Facility, which could, in turn, constitute a default under the Indenture, which would trigger a cross-default under the Notes and vice versa. See "*Description of the Notes—Change of Control*". In addition, a change of control could constitute a default under certain of our other debt.

The change of control provision contained in the Indenture may not necessarily afford you protection in the event of certain important corporate events that might adversely affect the value of the Notes (including certain reorganisations, restructurings, mergers or other similar transactions) because such corporate events may not involve a shift in voting power or beneficial ownership or, even if they do, may not constitute a "change of control" as defined in the Indenture. Except as described under "*Description of the Notes—Change of Control*", the Indenture will not contain provisions that require us to offer to repurchase or redeem the Notes in the event of a reorganisation, restructuring, merger, change a majority of the board of directors, recapitalisation or similar transaction.

The definition of "change of control" contained in the Indenture includes a disposition of all or substantially all of the assets of the Issuer and its restricted subsidiaries to any person. Although there is a limited body of case law interpreting the phrase "all or substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of "all or substantially all" of the assets of the Issuer and its restricted subsidiaries. As a result, it may be unclear as to whether a change of control has occurred and whether a holder of the Notes may require the Issuer to make an offer to repurchase the Notes.

You may face foreign exchange risks by investing in the Notes

The Notes are denominated and payable in pound sterling. If you measure their investment returns by reference to a currency other than pound sterling, an investment in the Notes will entail foreign exchange-related risks due to, among other factors, possible significant changes in the value of the pound sterling relative to the currency by reference to which such investors measure the return on their investments. These changes may be due to economic, political and other factors over which we have no control. Depreciation of the pound sterling against the currency by reference to which such investors measure the return on their investments could cause a decrease in the effective yield of the Notes below their stated coupon rates and could result in a loss to investors when the return on the Notes is translated into the currency by reference to which such investors measure the return on their investments. Investments in the Notes denominated in a currency other than U.S. dollars may also have important tax consequences to U.S. investors as a result of foreign exchange gains or losses, if any. See "*Tax Considerations—Certain U.S. Federal Income Tax Consequences*".

Credit ratings may not reflect all risks, are not recommendations to buy or hold securities and may be subject to revision, suspension or withdrawal at any time

Certain independent credit rating agencies are expected to assign credit ratings to the Notes. The credit ratings address our ability to perform our obligations under the terms of the Notes and credit risks in determining the likelihood that payments will be made when due under the Notes. The rating reflects the subjective opinion and analysis of the rating agency in question, and depends on the skill of the agency for its value. The ratings may not reflect the potential impact of all risks related to the structure, market, additional risk factors discussed in these "*Risk Factors*" and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal by the rating agency at any time. Prospective investors should not rely solely on the rating of such Notes and should make an independent decision based on their own analysis and experience. No assurance can be given that a credit rating will remain constant for any given period of time or that a credit rating will not be lowered or withdrawn entirely by the credit rating agency if, in its judgment, circumstances in the future so warrant. A suspension, reduction or withdrawal at any time of the credit rating assigned to the Notes by one or more of the credit rating agencies may adversely affect the cost and terms and conditions of our financings and could adversely affect the value and trading of the Notes. If a holder of the Notes were to sell the Notes under such circumstances, they may receive a price which is less than the price at which the Notes were initially purchased.

The Issuer discussed with several credit ratings agencies the provision of a rating of the Notes and, after initial discussions, proceeded to obtain a rating from two of the three agencies contacted.

You may not be able to recover in civil proceedings for U.S. securities law violations

The Issuer and the Guarantors are organised under the laws of England and Wales and certain of their respective subsidiaries are organised outside the United States, and their business currently is conducted entirely outside the United States. The directors and executive officers of the Issuer and the Guarantors are non-residents of the United States. Although the Issuer and the Guarantors will submit to the jurisdiction of certain New York courts in connection with any action under U.S. securities laws or under the Indenture, you may be unable to effect service of process within the United States on the directors and executive officers of the Issuer and the Guarantors. In addition, because all or a majority of the assets of the Issuer and the Guarantors and their respective subsidiaries and all or a majority of the assets of their directors and executive officers are located outside of the United States, you may be unable to enforce against them judgments obtained in the U.S. courts.

A judgment issued by a U.S. court against the Issuer or a Guarantor will (due to the current absence of an applicable treaty for the mutual recognition and enforcement of judgments in civil and commercial matters) not automatically be recognised and enforced by the courts of England and Wales. In order to enforce any such U.S. judgment in England, proceedings must first be initiated before a court of competent jurisdiction in England. In such an action, however, the English court would not generally reinvestigate the merits of the original matter decided by the U.S. court and it would usually be possible to obtain a summary judgment on such a claim (assuming that there is no good defence to it). Recognition and enforcement of a U.S. judgment by an English court in such an action is conditional upon a number of factors.

There is uncertainty as to whether the courts of England and Wales would (i) recognise and enforce judgments of U.S. courts obtained against the Issuer, the Guarantors, the directors, controlling persons and management who are not residents of the United States including those judgments predicated upon the civil liability provisions of the United States federal or state securities laws or (ii) accept jurisdiction and impose civil liability in original actions brought in England and Wales and predicated solely upon the United States federal or state securities laws.

There are circumstances other than repayment or discharge of Notes under which the Collateral securing the Notes and the Guarantees may be released automatically and under which the Guarantees may be released automatically, without your consent or the consent of the Trustee

There are circumstances other than repayment or discharge of the Notes under which the Collateral securing the Notes or the Guarantees may be released automatically without your consent or the consent of the Trustee, including, but not limited to:

- upon a defeasance or satisfaction and discharge of the Notes, as provided under the captions "*Description of the Notes—Defeasance*" and "*Description of the Notes—Satisfaction and Discharge*";
- in accordance with the provisions described under "*Description of the Notes—Amendments and Waivers*" and "*Description of the Notes—Certain Covenants—Limitation on Liens*";
- automatically, without any action by the Trustee or Security Agent, if the lien granted in favour of the Amended and Restated Senior Credit Facility or such other Debt that gave rise to the obligation to grant the lien over such Collateral is released;
- as provided for under the Intercreditor Agreement, including in accordance with certain enforcement actions taken by the creditors under certain of the Issuer's or a Restricted Subsidiary's secured Debt in accordance with the Intercreditor Agreement or any Additional Intercreditor Agreement;
- in the case of property and assets and capital stock of a Guarantor, to the extent such Guarantor is released from its Guarantee of the Notes pursuant to the terms of the Indenture;
- to the extent permitted in accordance with the covenant described under the caption "*Description of the Notes—Certain Covenants—Impairment of Security Interest*";
- in connection with any asset sale or disposition or transfer of assets to a person that is not (either before or after giving effect to such transaction) the Issuer or a Restricted Subsidiary, if the sale or other disposition does not violate the covenant described under the caption "*Description of the Notes—Certain Covenants—Limitation on Asset Sales*";
- if the Issuer designates any Restricted Subsidiary to be an Unrestricted Subsidiary in accordance with the applicable provisions of the Indenture (to the extent of such Restricted Subsidiary's assets and property); or
- as otherwise permitted under the Indenture.

In addition, under various circumstances, Guarantees may be released automatically, including, but not limited to:

- upon the sale or disposition (including through merger, consolidation, amalgamation or other combination) or conveyance, transfer or lease of the Capital Stock, or all or substantially all of the assets, of the Guarantor (or a Holding Company thereof) to a Person that is not (either before or after giving effect to the transaction) the Issuer or a Restricted Subsidiary of the Issuer if such sale or other disposition does not violate the covenants described under the caption "*Description of the Notes—Certain Covenants—Limitation on Asset Sales*" or "*Description of the Notes —Certain Covenants—Merger, Consolidation or Sale of Assets*");
- in connection with any sale or other disposition of the Capital Stock of the Guarantor (or Capital Stock of any Holding Company of such Guarantor (other than the Issuer)) (whether by direct sale or through a Holding Company) to a Person that is not (either before or after giving effect to such transaction) the Issuer or a Restricted Subsidiary, if the sale or other disposition does not violate the provisions set forth below under "*Description of the Notes—Certain Covenants—Limitation on Asset Sales*" and as a result of such disposition such Guarantor no longer qualifies as a Subsidiary of the Issuer;

- upon a defeasance or satisfaction and discharge of the Indenture that complies with the provisions under "*Description of the Notes—Defeasance*" or "*Description of the Notes—Satisfaction and Discharge*;"
- upon the designation by the Issuer of the Guarantor (or a Holding Company thereof) as an Unrestricted Subsidiary in compliance with the terms of the Indenture;
- upon the liquidation or dissolution of the Guarantor; *provided* that no Default or Event of Default has occurred and is continuing;
- in accordance with the Intercreditor Agreement or any Additional Intercreditor Agreement;
- upon repayment in full of the Notes;
- in the case of any Restricted Subsidiary that after the Issue Date is required to guarantee the Notes pursuant to the covenant described under the covenant "*Description of the Notes—Certain Covenants—Limitation on Guarantees of Debt by Restricted Subsidiaries*", the release or discharge of the guarantee by such Restricted Subsidiary which resulted in the obligation to guarantee the Notes; or
- as described under "*Description of the Notes—Amendments and Waivers*".

See "*Description of Other Debt—Intercreditor Agreement*" and "*Description of the Notes*".

The bankruptcy and insolvency laws of England and Wales may not be as favourable as the bankruptcy and insolvency laws in other jurisdictions with which you may be familiar

The insolvency or similar proceedings to which the Issuer and the Guarantors may be subject will be under the jurisdiction of the courts within the territory of which each of the Issuer and Guarantors has its respective centre of main interests (for further information see "*Certain Insolvency and Enforceability Considerations—European Union*"). The location of the centre of main interests of the Issuer and each Guarantor would be determined at the date on which its petition for insolvency or similar proceedings is filed. It is therefore possible that the Issuer or a Guarantor may be the subject of insolvency or similar proceedings in a jurisdiction other than the jurisdiction in which it has its registered office.

The Issuer and the Guarantors are incorporated under the laws of England and Wales. Accordingly, and assuming that the Issuer's and the Guarantors' centres of main interests (within the meaning of EU Council Regulation No. 1346/2000 of 29 May 2000 on insolvency proceedings, as amended (the "EU Insolvency Regulation")) are in England and Wales, that there is no change to the situation of the obligors' centres of main interests and that the obligors have no establishments elsewhere (assuming that the centres of main interests are located in a jurisdiction where the EU Insolvency Regulation is applicable), insolvency proceedings with respect to any of those entities would be likely to proceed under, and be governed by, English insolvency law (although this could be challenged and secondary/ancillary proceedings could be opened in other jurisdictions). English insolvency law may not be as favourable to creditors as the laws of the United States or other jurisdictions with which you may be familiar. In the event that any one or more of the Issuer or the Guarantors experiences financial difficulty, it is not possible to predict with certainty the outcome of insolvency or similar proceedings. Provided the centres of main interests of the Issuer and the Guarantors remain in England and Wales, and those companies do not have establishments in other jurisdictions at any time, insolvency proceedings relating to the Issuer and the Guarantors are likely to be commenced in England and Wales. However, the concepts of a company's centre of main interests and its other establishments are fluid and factual concepts that may change. To the extent any of the Issuer or the Guarantors has a centre of main interests or an establishment that is outside England and Wales, other jurisdictions' insolvency laws may become relevant. For further information, please see "*Certain Insolvency and Enforceability Considerations—England and Wales*" with respect to English insolvency law.

The EU Insolvency Regulation has been replaced by the Regulation (EU) 2015/848 of the European Parliament and of the Council dated 20 May 2015 (the "New EU Insolvency Regulation") which became effective as of 26 June 2015, and will be applicable to insolvency proceedings commenced after 26 June 2017. The EU Insolvency Regulation remains applicable to insolvency proceedings commenced before that date.

The New EU Insolvency Regulation includes, among others, specifications regarding the identification of the centre of main interests. Pursuant to Article 3(1) of the New EU Insolvency Regulation, the centre of main interests of a company or legal person is presumed to be located in the Member State of the registered office in the absence of proof to the contrary. That presumption shall only apply if the registered office has not been moved to another Member State within the three month period prior to the request for the commencement of insolvency proceedings. Pursuant to Preamble 30 of the New EU Insolvency Regulation, it should be possible to rebut this presumption where the company's central administration is located in a Member State other than that of its registered office, and where a comprehensive assessment of all the relevant factors establishes, in a manner that is ascertainable by third parties, that the company's actual centre of management and supervision and of the management of its interests is located in that other Member State. In this regard, special consideration should be given to creditors and their perception as to where a debtor conducts the administration of its interests. Another change under the New EU Insolvency Regulation focuses on the definition of "establishment" as a prerequisite to open "territorial proceedings" (secondary proceedings). From 26 June 2017 onwards, "establishment" will mean any place of operations where a debtor carries out or has carried out in the three month period prior to the request to open main insolvency proceedings a non-transitory economic activity with human means and assets.

On 23 June 2016, the U.K. held a referendum to decide on the U.K.'s membership of the EU. The U.K. vote was to leave the EU. The terms on which the U.K. will exit the EU are not certain and therefore it is not possible to know what impact any exit by the U.K. from the EU will have on the application of EU law (including the EU Insolvency Regulation or the New EU Insolvency Regulation) to, or in connection with, any insolvency proceedings (including, without limitation, the commencement of such insolvency proceedings and the jurisdiction of the U.K. courts in relation to such insolvency proceedings) to which the Issuer or any of the Guarantors may be subject.

Many of the covenants in the Indenture will be suspended if the Notes are rated investment grade

Many of the covenants contained in the Indenture will be suspended if the Notes are rated investment grade by at least two of Standard & Poor's Ratings Service, Moody's Investors Services and Fitch Ratings Inc., provided at such time no default under the Indenture has occurred and is continuing. These covenants will be suspended for the duration of the period during which the Notes maintain an investment grade rating and include covenants that restrict, among other things, our ability to pay dividends, to incur debt and to enter into certain other transactions. There can be no assurance that the Notes will ever be rated investment grade, or that if they are rated investment grade, the Notes will maintain such ratings. Suspension of these covenants, however, would allow us to engage in certain transactions that would not be permitted while these covenants were in force, and such transactions will not result in a breach of the Indenture during the period in which the covenants are suspended. See "*Description of the Notes—Certain Covenants—Suspension of Covenants on Achievement of Investment Grade Status.*"

The granting of the security interests in connection with the issuance of the Notes or the incurrence of permitted debt in the future may create or restart hardening periods

In certain jurisdictions, the granting of security interests to secure the Notes and the Guarantees may create periods during which those security interests may be challenged in the event of insolvency, or "hardening periods". The granting of a shared security interest to secure future debt may restart or reopen hardening periods in certain jurisdictions, in particular, as the Indenture will permit the release and retaking of security granted in favour of the Notes in certain circumstances including in connection with the incurrence of future debt. The applicable hardening period may run from the moment such new security is amended, granted or perfected. If the security interest granted were to be enforced before the end of the respective hardening period applicable in such jurisdiction, it may be declared void or ineffective and/or it may not be possible to enforce it. If the grantor of such security interest were to become subject to a bankruptcy or winding up proceeding after the Issue Date, any security interest in Collateral delivered after the Issue Date would face a greater risk than security interests in place on the similar authority, or otherwise set aside by a court, as a preference under insolvency law. To the extent that the grant of any security interest is voided, holders of the Notes would lose the benefit of the security interest. See "*Certain Insolvency and Enforceability Considerations".* The same rights and risks also will apply with respect to future security interests granted in connection with the

accession of further subsidiaries as additional Guarantors and the granting of security interests over their relevant assets and equity interests for the benefit of holders of the Notes. See "*Description of the Notes—Security.*"

Each Guarantee and security interest will be subject to certain limitations on enforcement and may be limited by applicable law or subject to certain defences that may limit its validity and enforceability

Each Guarantee will provide the holders of the Notes with a direct claim against the relevant Guarantor. In addition, the Issuer and the Guarantors will secure the payment of the Notes and the Guarantees by granting security under the relevant Security Documents. However, the Indenture may provide that each Guarantee will be limited to the maximum amount that may be guaranteed by the relevant Guarantor without, among other things, rendering the relevant Guarantee, as it relates to that Guarantor, voidable or otherwise ineffective or limited under applicable law or causing the officers of the Guarantor to incur personal civil or criminal liability, and enforcement of each such Guarantee would be subject to certain generally available defences and laws, and each security interest granted under a Security Document will be limited in scope to the value of the relevant assets expressed to be subject to that security interest. These laws and defences include those that relate to corporate benefit and uncommercial transactions, fraudulent conveyance or transfer, voidable preference, financial assistance, corporate purpose, capital maintenance or similar laws, regulations or defences affecting the rights of creditors generally. For further information, please see "Certain *Insolvency and Enforceability Considerations.*"

Under bankruptcy, insolvency, fraudulent conveyance and other laws in England and Wales, Guarantees and security interests can be challenged and a court could (i) declare unenforceable against third parties (including the beneficiaries thereof) and/or void any legal act performed by a Guarantor (including, without limitation, the granting by it of the Guarantees or the security interests granted under the Security Documents), (ii) require, if payment had already been made under a Guarantee or enforcement proceeds applied under a Security Document, that the recipient (and possibly, subsequent transferees thereof) return the payment to the relevant Guarantor and (iii) take other action that is detrimental to you, typically if the court found, inter alia, that:

- the relevant Guarantee or security interest under a Security Document was incurred with actual intent to give preference to one creditor over another, hinder, delay or defraud any present or future creditors or shareholders of the Guarantor or, when the granting of the Guarantee has the effect of giving a creditor a preference over another when the Guarantors contemplated filing for insolvency or the Guarantors subsequently entered an insolvency process or when the recipient was aware that the Guarantor was insolvent or it would be rendered insolvent when it granted the relevant Guarantee or security interest;
- the Guarantor did not receive fair consideration or consideration of equivalent value in money or money's worth or corporate benefit for the relevant Guarantee or security interests and the Guarantor was:

  (i) insolvent or rendered insolvent because of the relevant Guarantee or security interest;

  (ii) undercapitalised or became undercapitalised because of the relevant Guarantee or Security Document; or

  (iii) intended to incur, or believed that it would incur, debt beyond its ability to pay at maturity;
- the Guarantor incurred debts beyond its ability to pay those debts as they mature;
- the relevant Guarantees or Security Documents were held to exceed the corporate objects of the Guarantor or not to be in the best interests or for the corporate benefit of the Guarantor; or
- the amount paid or payable under the relevant Guarantee was in excess of the maximum amount permitted under applicable law.

These or similar laws may also apply to any future guarantee granted by any of our subsidiaries pursuant to the Indenture. Limitations on the enforceability of judgments obtained in New York courts could limit the enforceability of any Guarantee against any Guarantor.

For further information, please see "*Certain Insolvency and Enforceability Considerations.*"

Under the Intercreditor Agreement, the holders of the Notes are required to share security recovery proceeds with other secured creditors, and are subject to certain limitations on their ability to enforce the Security Interests, and other creditors may be entitled to recover against the Issuer and Guarantors

The Trustee under the Indenture governing the Notes is expected to enter into the Intercreditor Agreement with, among others, the agent under the Amended and Restated Senior Credit Facility and the Security Agent on or around the Issue Date. Other creditors may become parties to the Intercreditor Agreement or we may enter into additional intercreditor agreements in the future. Among other things, the Intercreditor Agreement will govern the enforcement of the Security Interests, the sharing in any recoveries from such enforcement and the release of the Collateral by the Security Agent.

The Notes will initially be secured by the same Collateral that will secure on a *pari passu* basis our obligations under the Amended and Restated Senior Credit Facility, certain hedging obligations and certain other debt that we may incur in the future in accordance with the terms of the Indenture and the Intercreditor Agreement.

The Intercreditor Agreement provides that a common security agent will serve as the Security Agent for secured parties under the Amended and Restated Senior Credit Facility Agreement, the Notes and hedging arrangements with respect to the shared collateral. Subject to certain limited exceptions, the Security Agent will act with respect to such collateral only at the direction of our senior secured creditors holding a simple majority of the aggregate principal amount of our senior secured debt that is subject to the Intercreditor Agreement (including, for this purpose, both drawn and undrawn uncancelled commitments under our Amended and Restated Senior Credit Facility, debt in respect of certain hedging obligations and debt under the Notes). The holders of the Notes will not have separate rights to enforce the collateral. As a result, the holders of the Notes will not be able to instruct the Security Agent, force a sale of collateral or otherwise independently pursue the remedies of a secured creditor under the relevant Security Documents.

Disputes may occur between the holders of the Notes and creditors under our Amended and Restated Senior Credit Facility as to the appropriate manner of pursuing enforcement remedies and strategies with respect to the Collateral. In such an event, the holders of the Notes will be bound by any decision of the instructing group, which may result in enforcement action in respect of the Collateral, whether or not such action is approved by the holders of the Notes or may be adverse to such holders. The creditors under our Amended and Restated Senior Credit Facility may have interests that are different from the interests of holders of the Notes and they may elect to pursue their remedies under the security documents at a time when it would otherwise be disadvantageous for the holders of the Notes to do so.

The Intercreditor Agreement provides that any proceeds from an enforcement of security which is available to satisfy the obligations under the Notes will be paid *pro rata* in repayment of the Notes and any other obligations secured by the Collateral on a *pari passu* basis. The Intercreditor Agreement provides that the Security Agent may release certain Collateral in connection with sales of assets pursuant to a permitted disposal or enforcement sale and in other circumstances permitted by the Indenture and the Amended and Restated Senior Credit Facility Agreement. Therefore, such collateral available to secure the Notes could be reduced in connection with the sales of assets or otherwise, subject to the requirements of the financing documents and the Indenture.

In addition, the Indenture governing the Notes and the Amended and Restated Senior Credit Facility will permit us, in compliance with the covenants in those agreements, to incur significant additional debt secured by liens on the Collateral. Our ability to incur additional debt in the future secured on the Collateral may have the effect of diluting the ratio of the value of such Collateral to the aggregate amount of the obligations secured by the Collateral. As a result, holders of Notes may receive less than holders of other secured debt. The granting of a shared security interest to secure future debt may restart or reopen hardening periods in certain jurisdictions. The applicable hardening period may run from the moment such new security is amended, granted or perfected. If the security interest granted were to be enforced before the end of the respective hardening period applicable in such jurisdiction, it may be declared void or ineffective and/or it may not be possible to enforce it. Please see "*Certain Insolvency and Enforceability Considerations".*

The Intercreditor Agreement provides that before the acceleration of any of our senior debt (excluding debt owed in respect of our hedging arrangements) (a "Pari Passu Debt Acceleration Event") there is no restriction on the Issuer or Guarantors making payment to any senior secured creditor. After a Pari Passu Debt Acceleration Event, the Issuer or Guarantor may not make payments to senior secured creditors other than in accordance with the security enforcement waterfall described below under "*Description of Other Debt—Application of Proceeds*", but the Intercreditor Agreement does not prevent our senior secured creditors from making recoveries through certain other means, including (where the right exists under other documentation) setting off credit balances which are held with those senior secured creditors by members of the Group. The exercise of these rights may result, if we are unable to satisfy all of our senior secured debt, in certain senior secured creditors recovering proportionately more than others of the amount owed to them. Although the Intercreditor Agreement does not restrict the holders of Notes any more than our other senior secured creditors in the exercise of these rights, the practical exercise of those rights and the proceeds resulting from their exercise may be less available to the holders of Notes than to certain of our other senior secured creditors, such as those with which members of the Group hold bank accounts. See "*Description of other Debt*".

Enforcing your rights as a holder of the Notes may prove difficult

The Issuer and the Guarantors are organised under the laws of England and Wales. In addition, the Notes, the Guarantees and the Indenture will be governed by the laws of the State of New York.

In the event of a bankruptcy, insolvency or similar event, proceedings could be initiated in England and Wales, the United States or both jurisdictions. Any multi-jurisdictional proceeding is likely to be complex and costly for creditors and otherwise may result in greater uncertainty and delay regarding the enforcement of your rights. Your rights under the Notes and the Guarantees will be subject to such bankruptcy, insolvency and administrative laws, and there can be no assurance that you will be able to effectively enforce your rights in such complex, multiple bankruptcy, insolvency or similar proceedings.

In addition, the bankruptcy, insolvency, administrative and other laws of England and Wales may be materially different from, or be in conflict with those of the United States and other jurisdictions with which you may be familiar, including in the areas of the rights of creditors, the priority of governmental and other creditors, the ability to obtain post-petition interest and the duration of the proceedings. The application of these laws, or any conflict among them, could call into question whether any particular jurisdiction's laws should apply, adversely affect your ability to enforce your rights under the Notes in the relevant jurisdictions or limit any amounts that you may receive.

The laws of England and Wales limit the ability of the Guarantors to guarantee debt of other companies. As a result, a court in those jurisdictions may deem the Guarantees to be invalid or reduce the amount of guaranteed obligations available to satisfy claims under the Notes. See "*Certain Insolvency and Enforceability Considerations.*"

The Notes are secured only to the extent of the value of the Collateral that has been granted as security for the Notes and future secured debt may be secured by certain assets that do not secure the Notes

The Notes are secured only to the extent of the value of the Collateral described in this Offering Memorandum. See "*Description of the Notes—Security".* Not all of our assets secure the Notes, and the Indenture allows the Issuer and its restricted subsidiaries to secure certain future senior debt permitted to be incurred under the Indenture (which may be structurally senior to the Notes and the Guarantees) with the property and assets of the restricted subsidiaries that do not secure the Notes. The value of such assets and property could be significant. If there is an event of default and to the extent that the claims of the holders of the Notes exceed the value of the Collateral securing the Notes and other obligations, those claims will rank equally with the claims of the holders of all other existing and future senior unsecured debt ranking *pari passu* with the Notes and the Guarantees.

While the Indenture creates certain obligations to provide additional guarantees and grant additional security over assets, the creation of such additional guarantees and security is subject to the terms of the Intercreditor Agreement. Additional guarantees may only be granted if, to the extent legally possible, at the same time they are offered to the other secured parties and they rank in the same order of priority as otherwise contemplated by the Intercreditor Agreement. Additional security may

only be granted if, to the extent legally possible, it is also offered either to the Security Agent as trustee for the secured parties or, in the case of a jurisdiction in which effective security cannot be granted in favour of the Security Agent as trustee for the secured parties.

The proceeds from the enforcement of the Collateral may not be sufficient to satisfy the obligations under the Notes

The Notes will, upon issuance, be secured by the Collateral. The assets subject to the Collateral are also subject to security interests for the benefit of other *pari passu* secured creditors, including lenders under the Amended and Restated Senior Credit Facility and certain hedge counterparties and the holders of any future debt that shares in the Collateral and becomes subject to the Intercreditor Agreement after the Issue Date. In addition, the Indenture will allow the incurrence of additional permitted debt in the future that is secured by such assets. The amount to be received upon an enforcement of any Collateral would be dependent on numerous factors affecting the value of the assets subject to the Collateral at the time of their enforcement. In addition, any failure of the Issuer to comply with the covenants of its financing arrangements, including under the Amended and Restated Senior Credit Facility, may result in an acceleration of the maturity of the debt thereunder which could also negatively impact the value of the Collateral. In the event of a foreclosure, liquidation, bankruptcy or similar proceeding, the proceeds from the enforcement of the Collateral may not be sufficient to repay the obligations under the Notes.

It may be difficult to realise the value of the Collateral securing the Notes

The Collateral securing the Notes is subject to any and all exceptions, defects, encumbrances, liens and other imperfections permitted under the Indenture and the Intercreditor Agreement and accepted by other creditors that have the benefit of first-priority security interests in the Collateral from time to time, whether on or after the date the Notes are first issued. The existence of any such exceptions, defects, encumbrances, liens and other imperfections could adversely affect the value of the Collateral securing the Notes as well as the ability of the Security Agent to realise or foreclose on such security. Furthermore, the first-priority security interests can be affected by a variety of factors, including, among others, the timely satisfaction of perfection requirements, statutory liens or recharacterisation under English law.

The security interests over the Collateral are subject to permitted liens and the Intercreditor Agreement. The Intercreditor Agreement sets forth limitations on the requirement to grant security interests in favour of the Notes in certain circumstances and may result in recoveries from security interests being limited or security not being granted at all over particular types or classes of assets.

The rights of the holders of the Notes may be adversely affected by the failure to perfect security interests in the Collateral and the granting of the security interest in the Collateral may be subject to hardening periods for such security interests in accordance with law

Under applicable law, a security interest in certain tangible and intangible assets can only be properly perfected, and its priority retained, through certain actions undertaken by the secured party or the grantor of the security.

The liens on the Collateral may not be perfected with respect to the Notes and the Guarantees if we or the Security Agent are not able to or do not take the actions necessary to perfect any such liens. Such failure may result in the invalidity of the relevant security interest in the Collateral securing the Notes and the Guarantees or adversely affect the priority of such security interest in favour of the Notes and the Guarantees against third parties, including a trustee in bankruptcy and other creditors who claim a security interest in the same Collateral. Neither the Trustee nor the Security Agent will have an obligation to monitor the acquisition of additional property or rights that constitute Collateral or take any action in relation to the perfection of any security interest therein.

Additionally, the Indenture and the Security Documents entered into in connection with the Notes will not require us to take actions that might improve the perfection or priority of the liens of the Security Agent in the Collateral. To the extent that the security interests created by the Security Documents with respect to any Collateral are not perfected, the Security Agent's rights will be equal to the rights of general unsecured creditors in the event of a liquidation, foreclosure, bankruptcy, reorganisation or similar proceeding.

The granting of security interests in connection with the issuance of the Notes and the entry into the Amended and Restated Senior Credit Facility Agreement may be subject to hardening periods for such security interests. The applicable hardening period for these new security interests will run as from the moment each new security interest has been granted, perfected or recreated, depending on the applicable laws. At each time, if the security interest granted, perfected or recreated were to be enforced before the end of the respective hardening period applicable in such jurisdiction, it may be declared void, it may be deemed ineffective towards the bankruptcy estate and/or it may not be possible to enforce it. In addition, the granting of a shared security interest to secure future debt may restart or reopen hardening periods and the aforementioned limitations may apply.

The security interests in the Collateral will be granted to the Security Agent rather than directly to the holders of the Notes. The ability of the Security Agent to enforce certain of the Collateral may be restricted by local law

The security interests in the Collateral that will secure the obligations of the Issuer under the Notes and the obligations of the Guarantors under the Note Guarantees will not be granted directly to the holders of the Notes but will be granted only in favour of the Security Agent. The Indenture will provide (along with the Intercreditor Agreement) that only the Security Agent has the right to enforce the Security Documents. As a consequence, holders of the Notes will not have direct security interests and will not be entitled to take enforcement action in respect of the Collateral securing the Notes. The Intercreditor Agreement will provide that the Security Agent will not be obliged to take any action in respect of the Collateral if it would be obliged to expend or risk its own funds or otherwise incur any liability or if it has grounds for believing the repayment of such funds or adequate indemnity against or security for such risk or liability is not reasonably assured to it.

The Notes will be secured by the Collateral which will also secure the obligations under our Amended and Restated Senior Credit Facility and certain hedging obligations. In addition, under the terms of the Indenture and the Amended and Restated Senior Credit Facility Agreement, we will be permitted to incur significant additional debt and other obligations that may be secured by the same Collateral. The Security Agent may refrain from enforcing the Collateral unless otherwise instructed (by us or the relevant instructing creditors, in accordance with the Intercreditor Agreement) for the purpose of enforcement. See "*Description of Other Debt—Intercreditor Agreement*" and "*Description of the Notes—Security.*" The security interests in the Collateral that will secure the obligations of the Issuer under the Notes and the obligations of the Guarantors under the Guarantees will not be granted directly to the holders of the Notes but will be granted only in favour of the Security Agent.

Transfer of the Notes is restricted, which may adversely affect their liquidity and value

The Notes and the Guarantees have not been, will not be, and are not required to be, registered under the U.S. Securities Act or the securities laws of any other jurisdiction, they may not be offered or sold in the United States except to QIBs in accordance with Rule 144A, in offshore transactions in accordance with Regulation S or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and all other applicable laws. These restrictions may limit the ability of investors to resell the Notes. We have not agreed to or otherwise undertaken to register the Notes with the U.S. Securities and Exchange Commission (including by way of an exchange offer). It is the obligation of investors in the Notes to ensure that all offers and sales of the Notes within the United States and other countries comply with applicable securities laws. See "*Notice to Investors".*

The Notes will initially be held in Book-Entry form through Euroclear and Clearstream and therefore you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies

Interests in the global notes representing the Notes trade in Book-Entry form only, and the Notes in definitive registered form, or definitive registered Notes, can be issued in exchange for book-entry interests only in very limited circumstances. Owners of Book-Entry interests are not considered owners or holders of the Notes. The common depositary, or its nominee, for Euroclear and Clearstream is the sole registered holder of the global notes representing the Notes. Payments of principal, interest and other amounts owing on or in respect of the global notes representing the Notes are made to the paying agent, which makes payments to Euroclear and Clearstream. Thereafter, these payments are

credited to participants' accounts that hold book-entry interests in the global notes representing the Notes and credited by such participants to indirect participants. After payment to the common depositary for Euroclear and Clearstream, the Issuer, as applicable, has no responsibility or liability for the payment of interest, principal or other amounts to the owners of Book-Entry interests. Accordingly, if you own a Book-Entry interest, they must rely on the procedures of Euroclear and Clearstream, and if you are not participants in Euroclear and Clearstream, you must rely on the procedures of the participant through which you own their interest, to exercise any rights and obligations of a holder of the Notes under the Indenture.

Unlike the holders of the Notes themselves, owners of Book-Entry interests do not have the direct right to act upon the solicitations for consents of the Issuer, as applicable, requests for waivers or other actions from holders of the Notes. Instead, if you own a Book-Entry interest, you are permitted to act only to the extent you have received appropriate proxies to do so from Euroclear and Clearstream or, if applicable, a participant. The procedures implemented for the granting of such proxies may not be sufficient to enable such investor to vote on a timely basis.

Similarly, upon the occurrence of an event of default under the Indenture, unless and until definitive registered Notes are issued in respect of all Book-Entry interests, if you own Book-Entry interests, they are restricted to acting through Euroclear and Clearstream. The procedures to be implemented through Euroclear and Clearstream may not be adequate to ensure the timely exercise of rights under the Notes. See "*Book-Entry; Delivery and Form".*

The Notes may not become, or remain, listed on the Exchange, and there may not be an active trading market for the Notes, in which case your ability to sell the Notes will be limited

Although the Issuer will, in the indenture governing the Notes, agree to use its commercially reasonable efforts to have the Notes listed on the Official List of the Exchange and admitted to trading on the Global Exchange Market, and to maintain a listing on that or another internationally recognised stock exchange as long as the Notes are outstanding, the Issuer cannot assure you that the Notes will become, or remain listed. Although no assurance is made as to the liquidity of the Notes as a result of listing on the Official List of the Exchange and admission to trading on the Global Exchange Market or another internationally recognised stock exchange, failure to be approved for listing or the delisting of the Notes from the Official List of the Exchange or another stock exchange may have a material adverse effect on a holder's ability to resell Notes in the secondary market.

We cannot assure you that the Notes will become or will remain listed. In addition, we cannot assure you as to the liquidity of any market for the Notes, your ability to sell them or the price at which you may be able to sell them.

Future trading prices of the Notes depend on many factors, including, among other things, prevailing interest rates, the market for similar securities, general economic conditions and our own financial condition, performance and prospects. The liquidity of a trading market for the Notes may be adversely affected by a general decline in the market for similar securities. Historically, the market for non-investment grade securities, such as the Notes, has been subject to disruptions that have caused substantial price volatility. We cannot assure you that if a market for the Notes were to develop, such a market would not be subject to similar disruptions, which may have a negative effect on you, as a holder of Notes, regardless of our prospects and financial performance. As a result, we cannot assure you that an active trading market for the Notes will develop or, if one does develop, that it will be maintained. If there is no active trading market, you may not be able to resell your Notes at a fair value, if at all.

Payments of interest on the Notes will be subject to U.K. withholding tax unless an exemption is available

Interest on the Notes will be regarded as having a U.K. source and, as such, payments of interest on the Notes will be subject to U.K. withholding tax, unless an exemption or relief is available under U.K. domestic law or an applicable double tax treaty. Provided that the Notes are and continue to be officially listed and admitted to trading on the Global Exchange Market of the Exchange, which is a "recognised stock exchange" for the purposes of section 1005 of the Income Tax Act 2007, under current law interest payments on the Notes by the Issuer may be made without deduction or

withholding for or on account of U.K. income tax. In the event that the Notes are no longer determined or cease to be listed on a "recognised stock exchange" for the purposes of U.K. domestic law, other exemptions or reliefs may be available. However, there can be no assurance that the law in this area will not change during the life of the Notes. See "*Tax Considerations—U.K. Tax Considerations—Other rules relating to withholding or deductions on account of U.K. income tax".*

If any withholding or deduction for or on account of U.K. tax is required to be made, the Issuer or the Guarantors (as the case may be) will generally be obliged, except in certain circumstances (see "*Description of the Notes— Additional Amounts"),* to pay such additional amounts so as to result in the receipt by the holders of the Notes of such amounts as would have been received by them if no such withholding or deduction had been required. Should the Issuer be required to pay any such additional amounts, the notes may, at the option of the Issuer, be redeemed. In the event notes are not redeemed, the payment of additional amounts may adversely affect their financial condition .of the Issuer or the Guarantors (as the case may be).

Early redemption of the Notes may reduce the yield expected by the holders of the Notes

The Notes may be redeemed at the option of the Issuer as more fully described in "*Description of the Notes.*" In the event that the Issuer exercises the option to redeem the Notes, the holders of the Notes may suffer a lower than expected yield and may not be able to reinvest the funds on the same terms.

USE OF PROCEEDS

The gross proceeds from the sale of the Notes are expected to be £250,000,000 (assuming the notes are issued at par).

We intend to use the proceeds of the Offering (i) to repay amounts outstanding under our Revolving Credit Facility and to repay certain other debt; (ii) for general corporate purposes that include, but are not limited to, the expansion of capacity in our Andover and Erith CFCs and for further development of our platform, fulfilment and technology capabilities; and (iii) to pay certain administrative costs, expenses and fees in connection with, or otherwise related to, the Financing Transactions.

Certain companies in the Group have entered into the Amended and Restated Senior Credit Facility with commitments of £100 million. We expect that the Amended and Restated Senior Credit Facility will become effective upon the satisfaction of certain customary conditions, including the issue of the Notes, which we expect to occur on or around the Issue Date.

For a description of our anticipated debt following the issuance of the Notes and the application of the net proceeds thereof, see "*Summary Corporate and Financing Structure*", "*Description of the Notes*", "*Description of Other Debt*" and "*Capitalisation*."

The estimated sources and uses of the funds relating to the Financing Transactions are shown in the table below. Actual amounts may vary from estimated amounts depending on several factors, including differences between estimated and actual fees and expenses, differences in exchange rates and interim debt repayments.

Sources	(£ million)	Uses	(£ million)
Notes offered hereby[1]	250.0	General corporate purposes[2]	144.3
Amended and Restated Senior Credit Facility (£100 million in commitments)	—	Revolving Credit Facility repayment[3]	87.5
		Repayment of finance leases[4]	3.1
		Repayment of certain other loans[5]	6.9
		Estimated fees & expenses[6]	8.2
Total Sources	250.0	Total Uses	250.0

(1) Represents the aggregate principal amount of Notes offered hereby. Assumes that the Notes will be issued at par.

(2) Expected to include, but will not be limited to, the expansion of capacity in our Andover CFC, Erith CFC and potential future CFCs and the further development of our platform, fulfilment and technology capabilities. The Company intends to consider the early termination of certain finance leases using the proceeds of the offering of the Notes but there is no assurance that such transactions will occur.

(3) As at 9 June 2017, Ocado Holdings Limited had drawings of £87.5 million under the Revolving Credit Facility. Drawings under the Revolving Credit Facility may fluctuate from time to time to meet the Group's working capital requirements, and the actual amount to be repaid under the Revolving Credit Facility may vary from the amount shown above depending on several factors, including the closing date of the Offering, the outstanding amounts under the Revolving Credit Facility on such date, the issue price of the Notes and the actual fees and expenses incurred in connection with the Financing Transactions.

(4) As at 30 April 2017, the Issuer and its subsidiaries had total obligations of £156.6 million under outstanding finance leases (including £108.1 million of MHE JVCo lease obligations). Other finance lease amounts principally relate to vehicle leases. As part of its balance sheet management, the Group is repaying £3.1 million of its finance lease obligations (not relating to MHE JVCo lease obligations).

(5) As at 30 April 2017, the Issuer and its subsidiaries had borrowings under certain other loans of £6.9 million, including £6.6 million outstanding under its existing sterling term loan facility, secured by freehold property. All such loans are being repaid.

(6) Reflects estimated commissions, fees and expenses in connection with the Financing Transactions, including Initial Purchasers fees, professional fees and expenses and other transaction costs in relation to the offering of the Notes.

CAPITALISATION

The following table sets forth our historical consolidated capitalisation, along with our cash and cash equivalents, as at 30 April 2017 (i) on an actual basis and (ii) as adjusted to give effect to the issuance of the Notes and the application of the net proceeds thereof (without the deployment of funds raised for general corporate purposes). The actual consolidated financial information has been derived from the financial information included elsewhere in this Offering Memorandum.

This table should be read in conjunction with "*Use of Proceeds*," "*Management's Discussion and Analysis of Financial Condition and Results of Operations*," "*Description of the Notes*" and "*Description of Other Debt*," as well as the consolidated financial statements and the notes thereto included in this Offering Memorandum.

	As at 30 April 2017	
	Actual	As Adjusted
Capitalisation and Debt[1]	(in £ million)	
Cash and cash equivalents[2]	**41.9**	**186.2**
Third party borrowings		
Obligations under finance leases[3]	48.4	45.3
Certain other loans[4]	6.9	—
Revolving Credit Facility[5]	87.5	—
Amended and Restated Senior Credit Facility (£100 million in commitments)[6]	—	—
Notes offered hereby[7]	—	250.0
Total third party borrowings before capitalised financing costs[8]	**142.8**	**295.3**
Capitalised financing costs[9]	(2.2)	(10.4)
Total third party borrowings	**140.6**	**284.9**
Total equity[10]	271.5	271.5
Total capitalisation[11]	**412.1**	**556.4**

(1) This statement of debt has been prepared using IFRS information using policies which are consistent with those used in preparing the consolidated financial statements of the Group set out in "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Significant accounting policies and critical estimates, judgments and assumptions*".

(2) Reflects cash and cash equivalents as at 30 April 2017, including £4.6 million of restricted cash as at 30 April 2017. The as adjusted column includes net proceeds from the issuance of the Notes that are expected to be used for general corporate purposes over time, including, but not limited to expenditures related to the expansion of capacity in our Andover CFC, Erith CFC and potential future CFCs, for further development of our platform, fulfilment and technology capabilities.

(3) Reflects obligations under various finance leases, principally related to delivery vehicles. The Company intends to consider the early termination of certain finance leases using the proceeds of the offering of the Notes but there is no assurance that such transactions will occur. Excludes Group obligations owed to MHE JVCo under finance leases (£108.1 million outstanding as at 30 April 2017). See *"Management's Discussion and Analysis of Financial Condition and Results of Operations—External sources of funding, financing and debt", "Business—Our Solutions Business—Relationship with Morrisons."* See also *"Risk Factors—The Notes will be structurally subordinated to the liabilities of non-guarantor subsidiaries and effectively subordinated to liabilities that are secured on assets that do not secure the Notes" and "Description of other Debt".*

(4) Reflects the aggregation of certain asset-based and property-based loans.

(5) Represents the outstanding drawings under our Revolving Credit Facility as at 30 April 2017. The outstanding drawings under our Revolving Credit Facility has not changed materially as of 9 June 2017. On the Issue Date the Issuer expects Ocado Holdings Limited to repay all drawings under the Revolving Credit Facility, see "*Use of Proceeds*."

(6) Certain companies in the Group will have entered into the Amended and Restated Senior Credit Facility with a revolving credit facility with commitments of £100 million, that we expect will become effective upon the satisfaction of certain customary conditions, including the issue of the Notes which we expect to occur on or around the Issue Date. As of the Issue Date, we do not expect any commitments under the Amended and Restated Senior Credit Facility to be drawn. See "*Description of other Debt*".

(7) Represents the aggregate principal amount of Notes offered hereby. Assumes that the Notes will be issued at par.

(8) Excludes Group obligations owed to MHE JVCo under finance leases (£108.1 million outstanding as at 30 April 2017).

(9) Represents the financing costs that were capitalised but not yet amortised.

(10) Represents the accounting value of the equity of the Group. As at 9 June 2017, Ocado Group plc's market capitalisation was £1.73 billion.

(11) Total capitalisation comprises total third party borrowings and total equity.

SELECTED FINANCIAL INFORMATION

The following selected consolidated financial information relating to the Group has been derived from the consolidated financial statements included elsewhere in this Offering Memorandum.

This Offering Memorandum includes financial information derived from our audited consolidated financial statements as of and for each of the 52 weeks ended 30 November 2014 ("FYE 2014"), 29 November 2015 ("FYE 2015") and 27 November 2016 ("FYE 2016") and from our unaudited condensed consolidated financial statements as of and for the 22 weeks ended 30 April 2017 ("P5 2017") (containing comparatives for the 20 weeks ended 17 April 2016 ("P5 2016")). This Offering Memorandum also includes certain financial information relating to our Key Performance Indicators derived from our audited consolidated financial statements as of and for each of the 52 weeks ended 1 December 2013 ("FYE 2013") and the 53 weeks ended 2 December 2012 ("FYE 2012").

It is important to note for comparability purposes that P5 2017 had 22 weeks and P5 2016 had 20 weeks. This is because in November 2016 Ocado decided for financial years from FYE 2017 onwards to move from a financial calendar comprising 13 four weekly accounting periods to a financial calendar of 12 accounting periods where each quarter comprises three periods of 5 weeks, 4 weeks and 4 weeks. Additionally, FYE 2012 had 53 trading weeks while FYE 2013 through FYE 2016 each had 52 trading weeks. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors affecting Comparability".

Our consolidated financial statements for FYE 2014, FYE 2015 and FYE 2016 and our condensed consolidated financial statements for P5 2016 and P5 2017 appear in the F-pages of this Offering Memorandum. Our consolidated financial statements for FYE 2014, FYE 2015 and FYE 2016 should be read in conjunction with the relevant reports of our independent auditor as such reports relate to our audited consolidated financial statements as of and for FYE 2014, FYE 2015 and FYE 2016.

Also included below is certain unaudited operating information which has been derived from information extracted from management accounts and internal financial and operating reporting systems and not from the consolidated financial statements included in this document for the periods described.

The selected financial and unaudited operating data set out below should also be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial information included elsewhere in this Offering Memorandum.

Certain figures contained in this document, including financial information, have been subject to rounding adjustments. Accordingly, in certain instances (i) the sum or percentage change of such numbers may not conform exactly with the total figure given; and (ii) the sum of the numbers in a column or a row in certain tables may not conform exactly with the total figure given for that column or row.

Selected Consolidated Income Statement Information

The table below sets out our consolidated income statement data of the Group for P5 2017, P5 2016, FYE 2016, FYE 2015 and FYE 2014:

	For the 22 weeks ended 30 April 2017	For the 20 weeks ended 17 April 2016	FYE 2016	FYE 2015	FYE 2014
			(£ million)		
Revenue	**600.5**	**481.7**	**1,271.0**	**1,107.6**	**948.9**
Cost of sales	(391.5)	(317.6)	(835.7)	(732.5)	(636.0)
Gross profit	**209.0**	**164.1**	**435.3**	**375.1**	**312.9**
Other income	20.8	18.4	52.9	49.0	39.4
Distribution costs	(175.0)	(136.9)	(365.7)	(309.4)	(253.1)
Administrative expenses	(45.1)	(38.0)	(100.6)	(95.6)	(85.0)
Operating profit before result from joint venture and exceptional items	**9.7**	**7.6**	**21.9**	**19.1**	**14.2**
Share of result from joint venture	0.6	0.6	2.1	2.3	2.4
Exceptional items	(0.1)	—	(2.4)	—	(0.3)
Operating profit	**10.2**	**8.2**	**21.6**	**21.4**	**16.3**
Finance income	0.2	0.1	0.2	0.2	0.4
Finance costs	(3.7)	(3.7)	(9.7)	(9.7)	(9.5)
Profit before tax	**6.7**	**4.6**	**12.1**	**11.9**	**7.2**
Taxation	—	0.2	(0.1)	(0.1)	0.1
Profit for the period	**6.7**	**4.8**	**12.0**	**11.8**	**7.3**

Selected Consolidated Balance Sheet Information

The table below sets out our consolidated historical balance sheets of the Group as at the dates indicated.

	As at			
	30 April 2017	27 November 2016	29 November 2015	30 November 2014
	(£ million)			
Non-current assets				
Intangible assets	93.4	79.7	52.9	38.4
Property, plant and equipment	418.2	397.3	327.3	275.2
Deferred tax asset	14.3	14.2	10.0	9.4
Financial assets	0.4	2.6	2.9	0.4
Investment in joint ventures	57.7	57.1	62.0	67.8
	584.0	550.9	455.1	391.2
Current assets				
Inventories	33.5	39.1	29.9	27.6
Trade and other receivables	73.8	59.4	60.8	43.1
Derivative financial instruments	—	0.3	—	—
Cash and cash equivalents	41.9	50.9	45.8	76.3
	149.2	149.7	136.5	147.0
Total Assets	**733.2**	**700.6**	**591.6**	**538.2**
Current liabilities				
Trade and other payables	(196.9)	(205.6)	(164.4)	(136.5)
Borrowings	(86.5)	(52.9)	(1.6)	(4.4)
Obligations under finance leases	(35.8)	(29.8)	(26.5)	(26.5)
Derivative financial instruments	(0.5)	(0.2)	(0.7)	(0.2)
Provisions	(0.3)	(2.4)	(2.8)	(0.4)
	(320.0)	(290.9)	(196.0)	(168.0)
Net current liabilities	**(170.8)**	**(141.2)**	**(59.5)**	**(21.0)**
Non-current liabilities				
Borrowings	(5.6)	(6.1)	(7.7)	(2.3)
Obligations under finance leases	(120.8)	(127.0)	(137.0)	(142.5)
Provisions	(8.5)	(7.3)	(6.3)	(5.2)
Deferred tax liability	(6.8)	(6.9)	(2.7)	(2.0)
	(141.7)	(147.3)	(153.7)	(152.0)
Net assets	**271.5**	**262.4**	**241.9**	**218.2**
Equity				
Share capital	12.6	12.6	12.6	12.5
Share premium	257.2	256.9	258.7	255.1
Treasury shares reserve	(48.0)	(48.0)	(50.9)	(51.8)
Reverse acquisition reserve	(116.2)	(116.2)	(116.2)	(116.2)
Other reserves	(0.1)	0.2	(0.8)	(0.3)
Retained earnings	166.0	156.9	138.5	118.9
Total equity	**271.5**	**262.4**	**241.9**	**218.2**

Selected Consolidated Cash Flow Statement Information

The table below sets out our consolidated cash flow statement data of the Group for P5 2017, P5 2016, FYE 2016, FYE 2015 and FYE 2014:

	For the 22 weeks ended 30 April 2017	For the 20 weeks ended 17 April 2016	FYE 2016	FYE 2015	FYE 2014
			(£ million)		
Cash flow from operating activities					
Profit before tax	6.7	4.6	12.1	11.9	7.2
Adjustments for:					
Depreciation, amortisation and impairment losses	27.4	23.0	61.0	60.1	55.0
Movement in provisions	(1.0)	0.6	0.6	3.2	1.9
Share of profit in joint venture	(0.6)	(0.6)	(2.1)	(2.3)	(2.4)
Share-based payments charge	2.7	3.0	6.4	7.8	4.4
Foreign exchange movements	—	—	—	—	0.1
Net finance costs	3.5	3.7	9.5	9.5	9.1
Changes in working capital:					
Movement in inventories	5.6	1.0	(9.2)	(2.3)	(3.6)
Movement in trade and other receivables	(13.3)	(7.9)	2.5	(19.1)	(0.3)
Movement in trade and other payables	10.2	25.5	25.2	23.7	13.8
Cash generated from operations	**41.2**	**52.9**	**106.0**	**92.5**	**85.2**
Interest paid	(3.7)	(3.7)	(9.1)	(9.7)	(9.7)
Net cash flows from operating activities	**37.5**	**49.2**	**96.9**	**82.8**	**75.5**
Cash flows from investing activities					
Purchase of property, plant and equipment	(53.7)	(26.3)	(85.3)	(70.7)	(53.0)
Purchase of intangible assets	(21.4)	(11.4)	(38.6)	(28.4)	(25.8)
Dividend received from joint venture	—	—	8.4	8.1	—
Interest received	—	—	0.2	0.2	0.5
Net cash flows from investing activities	**(75.1)**	**(37.7)**	**(115.3)**	**(90.8)**	**(78.3)**
Cash flows from financing activities					
Proceeds from the issue of ordinary share capital net of transaction costs	0.4	0.5	1.1	4.5	3.7
Proceeds from borrowings	57.5	10.0	61.3	8.2	—
Repayment of borrowings	(22.5)	—	(11.5)	(5.6)	(2.9)
Repayment of obligations under finance leases	(6.4)	(5.8)	(26.4)	(26.9)	(30.5)
Payment of financing fees	(0.4)	(0.5)	(1.2)	(2.5)	(1.2)
Settlement of cash flow hedges	—	—	0.2	(0.2)	(0.5)
Net cash flows from financing activities	**28.6**	**4.2**	**23.5**	**(22.5)**	**(31.4)**
Net (decrease)/increase in cash and cash equivalents	**(9.0)**	**15.7**	**5.1**	**(30.5)**	**(34.2)**
Cash and cash equivalents at the beginning of the period	50.9	45.8	45.8	76.3	110.5
Cash and cash equivalents at the end of the period	**41.9**	**61.5**	**50.9**	**45.8**	**76.3**

Key Performance Indicators

	For the 22 weeks ended 30 April 2017	For the 20 weeks ended 17 April 2016	FYE 2016	FYE 2015	FYE 2014	FYE 2013	FYE 2012
			(£ million)				
Trading weeks	22	20	52	52	52	52	53
Gross Sales (Group)[1]	655.2	524.9	1,386.7	1,204.4	1,026.5	852.4	731.9
Gross Sales (Retail)[2]	600.4	481.4	1,267.4	1,115.7	972.4	843.0	731.9
Revenue	600.5	481.7	1,271.0	1,107.6	948.9	792.1	678.6
Gross Profit	209.0	164.1	435.3	375.1	312.9	247.5	207.3
Adjusted EBITDA[3]	36.1	29.0	76.9	75.8	64.7	45.2	35.4
Adjusted Operating Profit[4]	12.4	10.6	28.3	26.9	18.6	4.3	6.3
External Net (Debt) / Cash	(98.7)	(5.8)	(56.2)	(7.5)	31.4	61.8	(55.2)

(1) Gross Sales (Group) is a non-GAAP measure. See "*Presentation of Financial and Other Data—Non-GAAP Measures/Alternative Performance Measures—Non-GAAP Non-GAAP Measures/Alternative Performance Measures—Gross Sales (Group)"* for further details.

(2) Gross Sales (Retail) is a non-GAAP measure. See *Presentation of Financial and Other Data—Non-GAAP Measures/Alternative Performance Measures—Non-GAAP Measures/Alternative Performance Measures—Gross Sales (Retail)*" for further details.

(3) Adjusted EBITDA is a non-GAAP measure. See "*Presentation of Financial and Other Data—Non-GAAP Measures/Alternative Performance Measures—Non-GAAP Measures/Alternative Performance Measures—Adjusted EBITDA"* for further details.

(4) Adjusted Operating Profit is a non-GAAP measure. See *"Presentation of Financial and Other Data—Non-GAAP Measures/Alternative Performance Measures—Non-GAAP Measures/Alternative Performance Measures—Adjusted Operating Profit"* for further details.

	For the 22 weeks ended 30 April 2017	For the 20 weeks ended 17 April 2016	FYE 2016	FYE 2015	FYE 2014	FYE 2013	FYE 2012
Average orders per week[1]	258,000	222,000	230,000	195,000	167,000	143,000	123,000
Average order size (£)[2]	108.81	110.60	108.10	111.15	112.25	113.53	112.13
CFC efficiency (UPH)[3]	164	158	160	155	145	135	121
Average deliveries per van per week (DPV)[4]	178	173	176	166	163	160	152
Average number of operational staff (full-time equivalent)	10,324	9,131	9,308	7,453	6,001	4,967	4,595
Product waste (%)[5]	0.7	0.8	0.7	0.7	0.8	1.0	0.7

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

(1) Average orders per week is a measure of the order growth in our retail businesses, showing the number of orders generated. Average orders per week refers to Ocado.com orders and includes standalone orders for Fetch.co.uk, Sizzle.co.uk and Fabled.com for periods where these destination sites were in operation. Average orders per week is calculated after cancelled orders are deducted.

(2) Average order size is a measure of the size of the average shopping basket and is used to monitor the size of average orders. Average order size refers to Ocado.com orders and excludes standalone orders and total sales for Fetch.co.uk, Sizzle.co.uk and Fabled.com for periods where these destination sites were in operation. Average order size is calculated after cancelled orders are deducted.

(3) CFC efficiency is measured using the units per labour hour ("UPH") efficiency measure and is a measure of the operational efficiency of mature CFCs. CFC efficiency (UPH) is measured as the number of units processed (inbound and outbound) from the CFC per productive hour worked by operational personnel. A CFC is considered mature when it has been open for 12 months by the start of the half year reporting period. This measure includes our Hatfield and Dordon CFCs and excludes the Andover CFC which we opened at the end of FYE 2016.

(4) Average deliveries per van per week (DPV) measures efficiency of our service delivery operation through van utilisation. It is calculated as the number of deliveries completed by all vans per week divided by the total number of vans in our fleet. Average deliveries per van per week (DPV) does not include Morrisons deliveries and vans.

(5) Product waste (%) measures efficiency of our operations in terms of waste minimisation and allows the accuracy of buying forecasts to be monitored. Product waste is defined as cost of goods purged for having passed Ocado's "use by" life guarantee. Product waste (%) is calculated as the cost of product waste as a percentage of Gross Sales (Retail).

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of financial condition and results of operations is intended to convey management's perspective on our operating performance and financial condition during the periods under review, as measured in accordance with IFRS and other relevant measures. This disclosure is intended to assist readers in understanding and interpreting our consolidated financial information included elsewhere in this Offering Memorandum. The discussion should be read in conjunction with consolidated financial statements included elsewhere in this Offering Memorandum. We are required to comply with IFRS, and our accounting policies have been established accordingly.

The following discussion contains forward-looking statements. These forward-looking statements are based on our current projections and expectations which we consider reasonable about future events. ***Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many important factors, including those set forth in the Risk Factors section in this Offering Memorandum. See "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors."***

In this discussion and analysis of financial condition and results of operations review,

- *references to "FYE 2014", "FYE 2015" and "FYE 2016" refer to each of the 52 weeks ended 30 November 2014, 29 November 2015 and 27 November 2016, respectively;*
- *references to "P5 2016" are to the 20 weeks ended 17 April 2016; and*
- *references to "P5 2017" are to the 22 weeks ended 30 April 2017.*

Certain figures contained in this discussion and analysis of financial condition and results of operations, including financial information, have been subject to rounding adjustments. Accordingly, in certain instances, (i) the sum or percentage change of the numbers may not conform exactly with the total figure given; and (ii) the sum of the numbers in a column or row in certain tables may not conform exactly with the total figure given for that column or row.

Unless stated otherwise, all of our financial information in this discussion and analysis of financial condition and results of operations for FYE 2016, FYE 2015 and FYE 2014 has been audited by PwC, and our financial information for P5 2016 and for P5 2017 is unaudited. For the avoidance of doubt, such financial information does not include operating information, even where such operating information includes certain financial metrics. Such operating information which is not audited includes, without limitation, average order size and average product waste.

Overview

Ocado is one of the world's leading dedicated online grocers. Headquartered in Hatfield, U.K., we were founded in 2000, have been listed on the London Stock Exchange since July 2010 and are a member of the FTSE 250 index with a market capitalisation of £1.73 billion as at 9 June 2017. Our objective is to provide, at a low operating cost, our customers with the best proposition in online grocery shopping. We have developed a leading end-to-end operating solution for online grocery retail based on proprietary technology and intellectual property for operating our own retail business, which we believe can also be deployed to provide platform solutions to our commercial partners. Grocery is the largest of all retail segments and is increasingly moving online supported by the rapid growth of shopping on mobile devices.

Online is forecast to be the fastest-growing channel in U.K. grocery over the next five years (source: IGD). We believe that consumers are increasingly seeking an online grocery shopping proposition that allows them to save time and effort while still retaining the wide product range, high quality and low cost that they expect from a store-based supermarket. We believe we are well-placed to benefit from the growing demand for ordering groceries online. As one of the world's leading dedicated online grocers, we believe we are in a strong position in the U.K. grocery market to grow our retail customer base and take market share from our store-based competitors.

We sell approximately 50,000 SKUs on average at Ocado.com and have expanded our offering into general merchandise categories, including through our dedicated destination sites (focusing on

specialised product ranges), which separately sell more than 22,000 SKUs. Our Ocado.com range comprises branded products, Waitrose own-brand products and Ocado own-brand products (sourced directly from various manufacturers). In accordance with the terms of our sourcing agreement with Waitrose (the "Sourcing Agreement"), approximately 80% of our third party branded grocery products are sourced through the Sourcing Agreement. We have a wide range of branded products, and while we have some overlap with Tesco and Waitrose, 20% of our sales for FYE 2016 were generated by branded products sold only at Ocado. Our dedicated destination sites focus on specialist product ranges. These destination sites are our pet store, Fetch.co.uk, our kitchen and dining store, Sizzle.co.uk, and our new premium beauty offering, Fabled.com.

In FYE 2016, we had approximately 580,000 active retail customers (FYE 2015: 509,000) (defined as customers who shopped at Ocado at least once in the last 12 weeks) and we processed an average of approximately 230,000 orders per week for Ocado customers (FYE 2015: 195,000). Due to our dedicated online retail model, unlike the major retailers, Ocado.com does not experience any cannibalisation of other channels such as physical stores with the conversion of new retail customers. As of the end of FYE 2016, our delivery area for Ocado.com covered over 70% of U.K. households. Our Ocado.com delivery catchment has not changed significantly over the last five years, and so our demand has grown primarily from new and existing customers within our existing catchments. In FYE 2016, 99.0% of items were delivered exactly as ordered and 94.9% of deliveries were on time or early in a one hour time slot.

In our retail business, we offer delivery of grocery products, as well as general merchandise, centrally picked from one of our three state-of-the-art, highly automated warehouses (the customer fulfilment centres, or "CFCs") or, in the case of certain of our general merchandise, our general merchandise distribution centre ("GMDC"), all in the U.K. We expect our third CFC (in Andover), which utilises our new proprietary fulfilment solution, to be more efficient to operate when at scale than our existing facilities. We expect our fourth CFC, which will utilise the same technology, to be even more efficient. We plan to open our fourth CFC in Erith, South East London, and a second GMDC nearby in FYE 2018.

Underpinning our retail customer offering are our bespoke software and equipment systems that have been mainly developed in-house. In addition to utilising these systems ourselves, we also offer them to other retailers as a service offering. We are seeking to commercialise this technology in our Solutions Business by offering these systems as the Ocado Smart Platform ("OSP") product, or components thereof, as required. We believe our solutions partners will benefit from our years of innovation originating from our own retail business through solutions that offer what we believe to be a better customer offer and a more cost-efficient way of operating online.

Morrisons, our first solutions partner, has seen strong growth in their online business since we launched our arrangement with them in 2014 by providing them with access to 50% of the capacity of our Dordon CFC. We will also provide Morrisons with 30% of the capacity of our fourth CFC in Erith when it opens in FYE 2018. We have also licensed to Morrisons the software necessary to fulfil online orders fulfilled from their own retail stores, alongside those online orders fulfilled by us for them from our CFCs and provide their customers with general merchandise products fulfilled and delivered from our existing range.

We have generated significant year-on-year growth in Gross Sales (Retail), which measures our retail sales, and Gross Sales (Group), which measures retail sales and revenue from our Solutions Business. We generated Gross Sales (Retail) of £1,267.4 million in FYE 2016, an increase of 13.6% as compared to FYE 2015 and Gross Sales (Group) of £1,386.7 million in FYE 2016, an increase of 15.1% as compared to FYE 2015. We have also achieved positive and growing Adjusted EBITDA since FYE 2012 and generated £76.9 million of Adjusted EBITDA in FYE 2016 (FYE 2015: £75.8 million; FYE 2014: £64.7 million). We believe that as our model has a relatively lean cost base, which we expect to further improve through realisation of further operating leverage, we have better future Adjusted EBITDA margin potential than our store-based competitors.

Our principal activities are grocery retailing in the U.K. and the development and monetisation of intellectual property and technology used for the online retailing, logistics and distribution of grocery and consumer goods, currently derived almost entirely from the U.K. The principal activities of the Group are currently managed as one segment.

Principal factors affecting results of operations

Our operating and financial results are affected by a number of factors. These factors have materially influenced our financial condition and results of operations during the periods under review and/or are expected to continue to influence our financial condition and results of operations. These factors are not exhaustive, and the entirety of this Offering Memorandum should be reviewed, particularly the Risk Factors section.

The online grocery market in the U.K.

The size of the U.K. grocery market was estimated at £180 billion in 2016. The U.K. online grocery market has grown faster than the overall grocery market since its inception, and we believe it will continue to grow substantially in the medium term, fuelled by a general trend of shoppers spending more online. We believe our growth has been, and we expect our growth to continue to be in the medium term, ahead of the U.K. online grocery market. See "*Business*" for further detail.

The U.K. grocery market is intensely competitive. We compete principally with traditional grocery retailers and with other online grocers, including Tesco.com, Sainsburys.co.uk, ASDA.com, Waitrose.com and Morrisons.com. We also compete with new competitors in the online grocery market, including broad e-commerce companies such as Amazon which recently began U.K. grocery sales through its various offerings, including Morrisons@Amazon. Marks & Spencer has recently announced that it intends to start selling food online.

Food prices and ability to pass through price increases

All of our sales are generated from operations in the U.K. In recent years we have experienced an overall market trend of retail price deflation for the products we sell, due in part to the competitive U.K. grocery market, adding to pressure on our gross margins. At the same time, we have also experienced an overall market trend of food and other input price inflation. For example, increases in the U.K. national minimum wage have led to grocery market wage inflation, and the recent stabilisation of oil prices has led to increased transport and input food prices. Moreover, following the Brexit referendum, the relative value of pound sterling declined versus certain other relevant currencies, including euro and USD. As a result, we and other grocers experienced inflationary pressures relating to food prices, as the price of non-British sourced foods in particular, which constitute approximately 40 per cent of the U.K. food market, rose in sterling denominated terms. Various grocery competitors have sought to limit the pass through of such food price inflation to customers, and we have maintained a significant degree of price matching with Tesco.com which has the greatest market share of the U.K. online grocery market. These changes, however, have pressured our gross margins during the periods under review and particularly in FYE 2016.

Expanding range

We continue to explore ways to expand our technology and service offering beyond our core online retail grocery business. In our retail business, we have in recent years expanded our product offering into general merchandise categories, including through our dedicated destination sites which focus on specialist product ranges, such as our pet store Fetch.co.uk in 2013, our kitchen and dining store Sizzle.co.uk in 2014 and our new premium beauty offering Fabled.com in 2016.

Expanding partnerships and platforms

Since 2013 we have also commercialised our capabilities and years of learning derived from our retail experience to offer solutions principally focused on grocery retailers, beginning with our relationship with the U.K. grocery retailer, Morrisons, see "*—Relationship with Morrisons*" and "*Business—Our Solutions Business*". More recently our plan to offer services to enable Dobbies to sell gardening products online, with launch targeted for the end of 2017, was announced. We recently announced a partnership with a European regional retailer as a customer for our Solutions Business (see "*Business—Our Solutions Business—Relationship with a European regional retailer*"), and we offer our solutions to other potential international corporate customers. These comprise an end-to-end software and physical infrastructure solution. They are offered as a fully integrated service which will provide customisable solutions depending on the retailer's specific requirements and the service they

wish to offer their customers. Future transactions could take various forms and include licensing, leasing, sale and investment elements as well as establishing joint venture or other partnership-like arrangements with platform customers.

As a relatively new business area and product for us, we have limited sales experience with our Solutions Business technology; however, during the period under review, our results reflect our research and development efforts to build capabilities in this area. We expect to continue to invest to build our capabilities and offerings in this area, as we develop our commercial relationships with solutions partners. These initiatives could require significant time and resource expenditures in coming periods, as our business and offering evolves in a manner not reflected in the consolidated financial statements included in this Offering Memorandum.

Increased number of customers and orders leading to revenue growth

We have experienced significant revenue growth due to increases in the number of customers, orders and order size. Our Gross Sales (Group) increased from £1,026.5 million in FYE 2014 to £1,386.7 million in FYE 2016 as a result of continued improvements in our proposition with improvements in our customer interfaces, competitive pricing initiatives, product range extension and improved product mix.

- Our average number of active customers increased by 12.4% in FYE 2015 and by 13.9% in FYE 2016. This was driven principally by increased penetration in our existing delivery areas. As at 27 November 2016, we had over 580,000 active retail customers.
- Our average number of orders per week increased from 167,000 in FYE 2014 to 230,000 in FYE 2016 due to continued increased demand principally from our existing delivery areas. This excludes the number of orders we process for Morrisons.
- Our average order size, which is measured as the average retail cost of goods a customer receives including the delivery charge and value added tax, has declined from £112.7 in FYE 2014 to £108.1 in FYE 2016. Decreases in average order size during the periods under review have been principally due to deflation in customer prices, but also due in part to customers making smaller, but more frequent orders, encouraged by customer engagement initiatives such as our Ocado Smart Pass and a greater usage of mobile devices which typically have smaller order sizes.

We have implemented and will continue to implement a strategy of continually improving our offering to customers to attract long-term customers and increase Gross Sales (Group):

- We have maintained competitive pricing strategies, such as our *Low Price Promise*, which have had a positive effect on Gross Sales (Group), but put downward pressure on gross margin as we follow pricing of the market leader but are impacted by costs movements, especially in light of recent food input price inflation in FYE 2016.
- We have expanded our product range on Ocado.com from approximately 43,000 SKUs on average in FYE 2014 to approximately 50,000 SKUs on average in FYE 2016. Approximately 4,860 products in our range at the end of FY 2016 were Waitrose own-label products. Sales of Waitrose own-label products represented 26.7% of our product sales in FYE 2016.
- At the end of FYE 2016, we also offered approximately 760 Ocado own-label products. Approximately 87% of all orders during 2017 contained at least one Ocado own-label product.

Increased operational efficiency and scale leading to decreasing CFC and trunking and delivery costs as a percentage of gross sales

As the volume of Gross Sales (Group) has increased, we have been able to decrease costs, including CFC and trunking and delivery costs, as a percentage of Gross Sales (Group), whilst improving service quality and inventory performance. The improvements cover principally operational costs, such as labour productivity, delivery efficiency and waste. The improvements have been delivered through operational excellence initiatives and from a mixture of capital expenditure projects, mainly aimed at:

- reducing labour requirements and enabling more intensive use of the advanced technological platform supporting the Business;

- work process and staff rostering developments to enable more efficient use of staff; and
- a series of IT system improvements, mainly developed in-house, that have supported our operational improvements.

42.9% of CFC costs were variable employment costs in FYE 2016, with the balance principally representing depreciation and amortisation and other fixed costs. Excluding depreciation and amortisation costs, 53.8% of CFC costs were variable employment costs in FYE 2016. On a per order basis, CFC employment costs are a function of the number of items in an order and have an inverse relationship with CFC efficiency. Delivery costs are mostly variable and are principally a function of the number of deliveries made and the efficiency with which these orders are delivered. On a per order basis, delivery costs generally have an inverse relationship with the average deliveries per van per week.

We have increased our CFC efficiency from 145 units per hour in FYE 2014 to 160 units per hour in FYE 2016, an increase of 10.3%. The average number of deliveries per van per week increased from 163 in FYE 2014 to 176 in FYE 2016, an increase of 8.0% as a result of increases in drops per route and routes per van per week. These improvements were delivered while the complexity of our operations increased as a consequence of the extension of the range and services offered.

Increased geographical penetration space and broadening of customer base

While we have maintained a comparable level of geographic coverage at over 70% of U.K. households during the periods under review, we have increased customer penetration and ordering frequency in our existing delivery areas. Our penetration is highest in areas where we have operated the longest.

A significant number of our customers also have families with young children. As our business develops, our customer demographics are broadening. Our price initiatives, targeted marketing and the introduction of Ocado own-label products have contributed to the broadening of our customer demographics.

Significant and continuing capital expenditure and investment in the business

Our ability to increase our geographical penetration and customer base has been enabled by our ongoing investments in fulfilment capacity and development of our operations. Our increased fulfilment capacity allows us to offer, for example, an increased number of delivery spots at peak times, and greater efficiency in delivering smaller customer orders, which has enabled us to supply the increased customer demand for online grocery services.

During the periods under review, we have made investments totalling over £487.4 million to develop and expand our operations to current scale. These investments have enabled us to expand our average number of orders per week from 167,000 in FYE 2014 to 230,000 in FYE 2016 (excluding in capacity). Our new Erith CFC is expected to further expand our fulfilment capacity and Andover CFC is increasing our capacity.

We are continuing to expand the capacity of our operations and plan to further expand the effective capacity to approximately 464,000 orders per week over the medium term. Over the medium term, we anticipate significant capital expenditure needs for continued investment in CFCs to expand our capacity and increase operational efficiency; development of Spokes; expansion of our vehicle fleet; continued development of IT systems; and maintenance. In addition, we continue to invest in developing our brand and marketing to customers.

Relationship with Waitrose

We are party to a Sourcing Agreement with Waitrose and John Lewis. Under these arrangements, Waitrose acts as our sourcing agent for the negotiation of and entry into the pricing terms of our supply commitments. We receive deliveries of approximately 6% of goods by volume from the Waitrose network with the remaining 94% being delivered and invoiced directly from suppliers. With respect to

products delivered through Waitrose, we pay an additional logistics fee, which varies by item and averaged 0.2% of Gross Sales (Group) in FYE 2016. Waitrose is obliged to use its reasonable endeavours to procure terms for Ocado which are the same as those obtained by Waitrose itself, including volume discounts and availability of support for promotions. In accordance with the terms of our Sourcing Agreement with Waitrose, approximately 80% of our third-party branded grocery sales are sourced through the Sourcing Agreement. For further details, see *"Business—Our Retail Business—Relationship with Waitrose and the sourcing of products".*

The Sourcing Agreement will expire on 1 September 2020, unless renewed or terminated earlier by any party giving 18 months' written notice. As at the date of this Offering Memorandum, no party has given notice to terminate.

Relationship with Morrisons

In May 2013, we entered into a 25 year agreement with Morrisons to provide certain technology, logistics and distribution services to enable Morrisons to launch and develop its online grocery business. There are two principal elements of the agreement with Morrisons: the technology services arrangement, and the sale and leaseback of property and equipment. Under the technology and services arrangement, we provide Morrisons with a range of services enabling Morrisons to launch its own online grocery offering out of the Dordon CFC. Under the sale and leaseback of property and equipment arrangement, our interests in the land and buildings of the Dordon CFC were acquired by Morrisons and leased back to us. We also created a 50/50 joint venture company with Morrisons, MHE JVCo. and sold all of the Dordon MHE to it, leasing it back for our and Morrisons' use. We extended the term of our agreement with Morrisons in August 2016, agreeing to share the capacity of our Erith CFC, and also agreed to provide Morrisons with the software required by it to fulfil customer orders from its store network, alongside those we fulfil for it from our CFCs. Under these arrangements, Morrisons.com is entirely separate from our online business, with its own supply arrangements, customers and product range. Morrisons customers order from Morrisons using the Morrisons.com website, selecting products sourced and ranged by Morrisons, fulfilled and delivered in a Morrisons owned and liveried van. For further information, see "*Business—Our Solutions Business—Relationship with Morrisons*".

We account for the services and capacity fees charged to Morrisons as revenue, and we account for expenses in connection with the provision of services, as well as the lease costs for each of the Erith and Dordon CFCs as distribution costs and administrative expenses. For Dordon CFC land lease costs recharged to Morrisons, we account for those amounts in other income.

Regarding MHE JVCo, we contribute assets (funded equally by us and Morrisons) to the MHE JVCo which are subsequently leased back to us under finance leases. This results in us recognising the full value of the assets and lease liability on our balance sheet. Subsequently the associated depreciation is recognised as a distribution cost and interest charges are recognised as finance costs. The finance costs represent income for MHE JVCo, which returns to us and Morrisons through recognition of share of profits of joint venture.

We make lease payments to MHE JVCo as part of our lease obligations. We recover 50 per cent of these lease payments from Morrisons, reflecting payment for their share of the usage of the MHE JVCo's assets. We account for these payments in other income.

At the end of each annual period that has past, MHE JVCo has distributed the cash received from the lease payments, less retentions for anticipated capital expenditure, equally to each of us and Morrisons, which we account for as a dividend from joint venture. With the exception of any Capital Expenditure retentions, our cash outflow in respect of our lease obligations to MHE JVCo is therefore offset by the Morrisons payment and the distribution of MHE JVCo cash and, by agreement, there is no significant timing gap in the offset of these payments.

MHE JVCo retains only a limited amount of working capital, and any increased capital expenditures agreed by us and Morrisons in respect of MHE JVCo results in an additional finance lease, as well as a proportionally increase recharge to Morrisons for use of these assets.

Seasonality

Family groups represent a significant proportion of our customer base. As a result, our revenue has historically been lower during U.K. summer and Easter school holidays with peaks during the Christmas period. In addition, adverse weather conditions, such as snow or flooding, can increase customer demand, although they can also adversely affect our ability to deliver products to customers. We have implemented a series of operational steps (such as the scheduling of staff vacation periods and setting the timing of delivery of new vans replacing old vans to take seasonality into account), which have had the effect of lowering variable costs during seasonal periods with lower demand. In addition, we have undertaken steps to improve our ability to make deliveries in adverse weather conditions (such as fitting our delivery vans with all-weather tyres).

Factors affecting Comparability

As a retail business, we have developed our financial calendar to align with our operational profile. Our results are sensitive, however, to the number of trading days in a given period, and our results for a given period may not be fully comparable to results from a comparable period in the prior year, as certain holidays (principally Easter, but also certain U.K. bank holidays) may fall in different periods between years, and otherwise the number of trading days and weeks in a given financial period may differ from that in a comparable period. Based on historical operating and financial performance, we believe our results are directly affected by the number of trading days in a given period.

For example, P5 2017 had 22 trading weeks and P5 2016 had 20 weeks. This is because we have gone from 13 period years to 12 period years (5/4/4 weeks per quarter). Additionally, FYE 2012 had 53 trading weeks while FYE 2013 through FYE 2016 each had 52 trading weeks.

Description of key income statement items

Revenue

Revenue comprises the fair value of consideration received or receivable for the sale of goods and services. This is shown net of returns, relevant marketing vouchers/offers and value added tax. Relevant vouchers/offers include money-off coupons, conditional spend vouchers and offers such as buy three for the price of two. Delivery and carrier bag charges are also included in revenue.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred. For deliveries performed by us, recognition of revenue is upon delivery of the goods to the customer's home. For goods which are delivered by third party couriers, revenue is recognised when the items have been transferred to the third party for onward delivery to the customer. Income from "Ocado Smart Pass," our discounted pre-pay membership scheme, is recognised in the period to which it relates, on an accruals basis.

Revenue from the rendering of services is recognised over the period in which services are rendered. Initial licence contract revenues are recognised over a term which is specific to individual customer contracts. For services, the term is the period over which services are rendered. For the provision of technology services, the revenue is 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.

Cost of sales

Cost of sales consists of the cost of groceries and other products we sell, 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.

Commercial Income

The Group continues to have agreements with suppliers whereby promotional allowances and volume-related rebates are received in connection with the promotion or purchase of goods for resale from those suppliers. The allowances and rebates are included in cost of sales.

Promotional Allowances

Cost of sales includes monies received from suppliers in relation to the agreed funding of selected items that are sold by the Group on promotion and is recognised once the promotional activity has taken place in the period to which it relates on an accruals basis. The estimates required for this source of income are limited because the time periods of promotional activity, in most cases, are less than one month and the invoicing for the activity occurs on a regular basis shortly after the promotions have ended.

Volume-Related Rebates

At the period end, the Group is required to estimate supplier income due from annual agreements for volume rebates, which span across the year end date. Estimates are required due to the fact that confirmation of some amounts due is often only received three to six months after the period end. Where estimates are required, these are based on current performance, historical data for prior years and a review of significant supplier contracts. A material amount of this income is received from third parties via the Group's supply agreement with Waitrose. The estimates for this income are prepared following discussions with Waitrose throughout the year and regularly reviewed by senior management.

Uncollected Commercial Income

Uncollected commercial income as at the balance sheet date is classified within trade and other receivables. Where commercial income has been earned, but not yet invoiced at the balance sheet date, the amount is recorded in accrued income.

Other income

Other income comprises the fair value of consideration received or receivable for advertising services provided by us to suppliers and other third parties on our Webshops, commission income, rental income, sublease payments receivable and amounts receivable not in the ordinary course of business. Income for advertising services is recognised over the particular time period for which the service is provided on an accruals basis. An adjustment is made at the period end to accrue the amount of income in relation to campaigns that may span the period end; however, such adjustments are not typically material.

Distribution costs

Distribution costs consist of all the costs incurred, excluding product costs, to the point of sale. In most cases, this is the customer's home. This includes the payroll-related expenses for the picking, dispatch and delivery of products 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. Distribution costs also includes costs incurred on behalf of Morrisons which are subsequently recharged.

Administrative expenses

Administrative expenses consist of all IT costs, advertising and marketing expenditure (excluding vouchers), share-based payments costs, employment costs of all central functions (which include board, legal, finance, human resources, marketing and procurement), rent and other property-related costs for the head office, all fees for professional services and the depreciation, amortisation and impairment associated with IT equipment, software, fixtures and fittings. Additionally, administrative expenses includes costs incurred on behalf of Morrisons which are subsequently recharged.

Share of result from joint venture

Our share of results from joint ventures 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 Group's share of the net assets of the entity, less any impairment in

value. If our share of losses in a joint venture or associate equals or exceeds its investment in the joint venture or associate, we do not recognise further losses, unless we have incurred obligations to do so or made payments on behalf of the joint venture or associate.

We have a 50% equity interest valued at £57.1 million as at end of FYE 2016 (FYE 2015: £62.0 million) in MHE JVCo, a joint venture company, incorporated in the U.K., in which Morrisons and Ocado Operating Limited, a subsidiary in the Group, are the sole investors. For further information, see "*Business—Our Solutions Business—Relationship with Morrisons*".

Exceptional Items

Exceptional items, as disclosed on the face of the Consolidated Income Statement, are items that due to their materiality and/or nature, as determined by management, have been classified separately in order to draw them to the attention of the reader of the consolidated financial statements and to avoid distortion of underlying performance. This facilitates comparison with prior periods to assess trends in financial performance more readily. It is determined by management that each of these items relates to events or circumstances that are non-underlying in nature.

We apply judgment in identifying the significant items of income and expense that are recognised as exceptional to help provide an indication of our underlying business performance. Examples of items that we consider as exceptional include, but are not limited to, costs relating to the opening of a new warehouse, corporate reorganisations, head office relocation costs, and any costs, outside of the normal course of business as determined by management.

Net finance costs

Net finance costs consist of finance income and finance costs. Finance income is comprised principally of bank interest receivable and other interest. Finance costs are comprised of interest payable on bank loans and overdrafts, interest on finance leases and interest on other financing arrangements.

Taxation

Our tax charge for a period comprises current and deferred tax. Tax is recognised in the Consolidated 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.

Results of operations

The financial information in this section relates to the results from our continuing operations. Our principal activities are grocery retailing and the development and monetisation of Intellectual Property ("IP") and technology used for the online retailing, logistics and distribution of grocery and consumer goods, currently derived solely from the U.K. We are not reliant on any major customer for 10% or more of our revenue. Our principal activities are currently managed as one segment. Consequently, all activities relate to this segment.

Comparison of financial results for P5 2017 and P5 2016

The following table sets out our unaudited consolidated income statement for P5 2017 and P5 2016:

	For the 22 weeks ended 30 April 2017	For the 20 weeks ended 17 April 2016	Change
	(£ million)		%
Revenue	**600.5**	**481.7**	**24.7**
Cost of sales	(391.5)	(317.6)	23.3
Gross profit	**209.0**	**164.1**	**27.4**
Other income	20.8	18.4	13.0
Distribution costs	(175.0)	(136.9)	27.8
Administrative expenses	(45.1)	(38.0)	18.7
Operating profit before result from joint venture and exceptional items	**9.7**	**7.6**	**27.6**
Share of result from joint venture	0.6	0.6	—
Exceptional items	(0.1)	—	—
Operating profit	**10.2**	**8.2**	**24.4**
Finance income	0.2	0.1	100.0
Finance costs	(3.7)	(3.7)	—
Profit before tax	**6.7**	**4.6**	**45.7**
Taxation	—	0.2	(100)
Profit for the period	**6.7**	**4.8**	**39.6**

The following table sets out our selected unaudited operating information for P5 2017 and P5 2016:

	For the 22 weeks ended 30 April 2017	For the 20 weeks ended 17 April 2016	Change
			%
Average orders per week(1)	258,000	222,000	16.2
Average order size (£)(2)	108.81	110.60	(1.6)
CFC efficiency (UPH)(3)	164	158	3.8
DPV(4)	178	173	2.9
Average number of operational staff (full-time equivalent)	10,324	9,131	13.1
Product waste (%)(5)	0.7	0.8	(0.1)(6)

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

(1) Average orders per week is a measure of the order growth in our retail businesses and is used to evaluate the level of orders generated. Average orders per week refers to Ocado.com orders and includes standalone orders for Fetch.co.uk, Sizzle.co.uk and Fabled.com for periods where these destination sites were in operation. Average orders per week is calculated after cancelled orders are deducted.

(2) Average order size is a measure of the size of the average shopping basket and is used to monitor the size of average orders. Average order size refers to Ocado.com orders and excludes standalone orders and total sales for Fetch.co.uk, Sizzle.co.uk and Fabled.com for periods where these destination sites were in operation. Average order size is calculated after cancelled orders are deducted.

(3) CFC efficiency is measured using the units per labour hour ("UPH") efficiency measure and is a measure of the operational efficiency of mature CFCs. CFC efficiency (UPH) is measured as the number of units dispatched from the CFC per productive hour worked by operational personnel. A CFC is considered mature when it has been open for 12 months by the start of the half year reporting period. This measure includes our Hatfield and Dordon CFCs and excludes the Andover CFC which we opened at the end of FYE 2016.

(4) Average deliveries per van per week (DPV) measures efficiency of our service delivery operation through van utilisation. It is calculated as the number of deliveries completed by all vans per week divided by the total number of vans in our fleet. Average deliveries per van per week (DPV) does not include Morrisons deliveries and vans.

(5) Product waste (%) measures efficiency of our operations in terms of waste minimisation and allows the accuracy of buying forecasts to be monitored. Product waste is defined as products purged for having passed Ocado's "use by" life guarantee. Product waste (%) is calculated as the cost of product waste as a percentage of Gross Sales (Retail).
(6) Percentage point.

Revenue and Gross Sales

Revenue increased from £481.7 million in P5 2016 to £600.5 million in P5 2017, an increase of £118.8 million, or 24.7%, reflecting contributions from our retail business, as well as from our arrangement with Morrisons. Gross Sales (Retail) increased from £481.4 million in P5 2016 to £600.4 million in P5 2017, an increase of 24.7% principally as a result of the additional two weeks in the reporting period, the increase in our active customer base from 546,000 in P5 2016 to 595,000 in P5 2017 (an increase of 49,000 or 9.0%) and an increase in the average number of orders per week from 222,000 in P5 2016 to 258,000 in P5 2017. The 16.2% increase in the average number of orders per week was due to an improved customer proposition, as well as a focus on increasing order frequency.

The average order size was £108.81 in P5 2017, a decrease of 1.6% compared to £110.60 in P5 2016. The change was due to a reduction in number of items per order due to increased customer order frequency and a reduced number of multi-buy promotions, partly offset by an increase in average price per item. Our arrangement with Morrisons contributed £45.7 million of revenue in P5 2017, reflecting growth of £9.4 million, or 25.9% from £36.3 million in P5 2016. The growth was mainly driven by increased revenue from recharges for services provided to support the expansion of the Morrisons.com business and increased fee income under the arrangement, which amounted to £8.5 million in P5 2017, an increase from £7.4 million in P5 2016 due to higher charges for management services due to increased volumes.

Gross profit

Cost of sales increased from £317.6 million in P5 2016 to £391.5 million in P5 2017, an increase of £73.9 million, or 23.3%. Gross profit increased from £164.1 million in P5 2016 to £209.0 million in P5 2017, an increase of £44.9 million, or 27.4%. Gross profit (Retail) was £163.3 million in P5 2017 compared to £127.8 million in P5 2016, an increase of 27.8% which is above the rate of revenue growth due to a reduced number of promotions and a return to limited selling price inflation in some product categories. Gross profit attributable to Morrisons recharges was £37.2 million in P5 2017 (P5 2016: £28.9 million) and for Morrisons fees it was £8.5 million in P5 2017 (P5 2016 £7.4 million).

Other income

Other income increased from £18.4 million in P5 2016 to £20.8 million in P5 2017, an increase of £2.4 million or 13.0%. Supplier income amounted to 2.9% of Revenue (Retail) in P5 2017 (P5 2016: 2.9%). Supplier income maintained its growth year-on-year as we engage our suppliers in media opportunities on our customer interfaces (including website, mobile apps and mobile websites). Other income also included £1.1 million (P5 2016: £1.0 million) of rental income in P5 2017, relating to the lease of Dordon CFC and £3.6 million (P5 2016: £4.6 million) of income in P5 2017 arising from the leasing arrangements with Morrisons for MHE assets. This income, for the MHE assets, is generated from charging MHE lease costs to Morrisons and equates to the additional depreciation and lease interest costs that we incur for the share of the MHE assets.

Distribution costs

Distribution costs increased from £136.9 million in P5 2016 to £175.0 million in P5 2017, an increase of £38.1 million, or 27.8%. Excluding costs recharged to Morrisons and depreciation and amortisation, underlying distribution costs increased by 29.3% in P5 2017.

The following table sets out our distribution costs for P5 2016 and P5 2017:

	For the 22 weeks ended 30 April 2017	For the 20 weeks ended 17 April 2016	Change
	(£ million)		%
Reported distribution costs	**175.0**	**136.9**	**27.8**
Costs recharged to Morrisons	(35.6)	(27.8)	(28.1)
Depreciation and amortisation	(19.0)	(16.0)	(18.8)
Underlying distribution costs	**120.4**	**93.1**	**29.3**

The increase in underlying distribution costs was principally due to the increased number of employees in the CFC and delivery operations and increased vehicle operating costs as a result of the increased volume of orders. These were offset by the impact of operational efficiencies achieved such as continued development of our route optimisation.

Depreciation of property, plant and equipment increased from £16.0 million in P5 2016 to £19.0 million in P5 2017, an increase of £3.0 million, or 18.8%. The increase was principally due the commencement of operations at Andover and increased investments in vehicles, overall mature CFC UPH (for Hatfield CFC and Dordon CFC combined) was 164 in P5 2017 compared with 158 in P5 2016. Deliveries per van per week have improved by 2.9% from 173 in P5 2016 to 178 in P5 2017 as customer density improved and we increased Sunday delivery slots.

Administrative expenses

Administrative expenses increased from £38.0 million in P5 2016 to £45.1 million in P5 2017, an increase of £7.1 million, or 18.7%. Excluding costs recharged to Morrisons and depreciation and amortisation, underlying administrative expenses increased by 17.8% in P5 2017 compared to P5 2016.

The following table sets out our administrative expenses for P5 2016 and P5 2017:

	For the 22 weeks ended 30 April 2017	For the 20 weeks ended 17 April 2016	Change
	(£ million)		%
Reported administrative expenses	**45.1**	**38.0**	**18.7**
Costs recharged to Morrisons	(1.7)	(1.1)	54.5
Depreciation and amortisation	(8.3)	(7.1)	16.9
Underlying administrative expenses	**35.1**	**29.8**	**17.8**

The increase in underlying administrative expenses was primarily due to continued investment in our strategic initiatives to support future growth, including a new head office. The rate of growth compared to the prior period is below sales growth partly due to the timing of specific projects during the year.

Operating profit before result from joint venture and exceptional items

Operating profit before result from joint venture and exceptional items increased from £7.6 million in P5 2016 to £9.7 million in P5 2017, an increase of £2.1 million, or 27.6%.

Share of result from joint venture

Share of result from joint venture was £0.6 million for P5 2016 and P5 2017. For further details on the results of the MHE JVCo, see Note 3.4 *(Investments in Joint Ventures)* to the consolidated financial information.

Exceptional Items

Exceptional items increased from nil in P5 2016 to £0.1 million in P5 2017.

Net finance costs

Net finance costs amounted to £3.5 million in P5 2017 and £3.6 million P5 2016, principally reflecting obligations under finance leases. Finance income amounted to £0.1 million in P5 2016 and £0.2 million in P5 2017, each arising from interest on cash balances.

Profit before tax

Profit before tax increased from £4.6 million in P5 2016 to £6.7 million in P5 2017, an increase of £2.1 million, or 45.7%

Taxation

The statutory rate of tax applicable was 20% in P5 2016 and 19% in P5 2017. We had approximately £268.6 million (FYE 2015: £287.8 million) of unutilised carried forward tax losses at the end of the period.

Profit for the period

We recorded a £4.8 million profit in P5 2016 which increased to a £6.7 million profit in P5 2017, an increase of £1.9 million, or 39.6%.

Comparison of financial results for FYE 2016 and FYE 2015

The following table sets out our consolidated income statement for FYE 2016 and FYE 2015:

	FYE 2016	FYE 2015	Change
	(£ million)		%
Revenue	**1,271.0**	**1,107.6**	**14.8**
Cost of sales	(835.7)	(732.5)	14.1
Gross profit	**435.3**	**375.1**	**16.0**
Other income	52.9	49.0	8.0
Distribution costs	(365.7)	(309.4)	18.2
Administrative expenses	(100.6)	(95.6)	5.2
Operating profit before result from joint venture and exceptional items	**21.9**	**19.1**	**14.7**
Share of result from joint venture	2.1	2.3	(8.7)
Exceptional items	(2.4)	—	—
Operating profit	**21.6**	**21.4**	**0.9**
Finance income	0.2	0.2	—
Finance costs	(9.7)	(9.7)	—
Profit before tax	**12.1**	**11.9**	**1.7**
Taxation	(0.1)	(0.1)	—
Profit for the period	**12.0**	**11.8**	**1.7**

The following table sets out our selected unaudited operating information for FYE 2015 and FYE 2016:

	FYE 2016	FYE 2015	Change
			%
Average orders per week[1]	230,000	195,000	17.9
Average order size (£)[2]	108.10	111.15	(2.7)
CFC Efficiency (UPH)[3]	160	155	3.2
Average deliveries per van per week (DPV)[4]	176	166	6.0
Average number of operational staff (full-time equivalent)	9,308	7,453	24.9
Product waste (%)[5]	0.7	0.7	—

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

(1) Average orders per week is a measure of the order growth in our retail businesses and is used to evaluate the level of orders generated. Average orders per week refers to Ocado.com orders and includes standalone orders for Fetch.co.uk, Sizzle.co.uk and Fabled.com for periods where these destination sites were in operation. Average orders per week is calculated after cancelled orders are deducted.
(2) Average order size is a measure of the size of the average shopping basket and is used to monitor the size of average orders. Average order size refers to Ocado.com orders and excludes standalone orders and total sales for Fetch.co.uk, Sizzle.co.uk and Fabled.com for periods where these destination sites were in operation. Average order size is calculated after cancelled orders are deducted.
(3) CFC efficiency is measured using the units per labour hour ("UPH") efficiency measure and is a measure of the operational efficiency of mature CFCs. CFC efficiency (UPH) is measured as the number of units dispatched from the CFC per productive hour worked by operational personnel. A CFC is considered mature when it has been open for 12 months by the start of the half year reporting period. This measure includes our Hatfield and Dordon CFCs and excludes the Andover CFC which we opened at the end of FYE 2016.
(4) Average deliveries per van per week (DPV) measures efficiency of our service delivery operation through van utilisation. It is calculated as the number of deliveries completed by all vans per week divided by the total number of vans in our fleet. Average deliveries per van per week (DPV) does not include Morrisons deliveries and vans.
(5) Product waste (%) measures efficiency of our operations in terms of waste minimisation and allows the accuracy of buying forecasts to be monitored. Product waste is defined as products purged for having passed Ocado's "use by" life guarantee. Product waste (%) is calculated as the cost of product waste as a percentage of Gross Sales (Retail).

Revenue and Gross Sales

Revenue increased from £1,107.6 million in FYE 2015 to £1,271.0 million in FYE 2016, an increase of £163.4 million, or 14.8%, reflecting primarily growth in our retail business, as well as from our arrangement with Morrisons. Gross Sales (Retail) increased from £1.115.7 million in FYE 2015 to £1.267.4 million in FYE 2016, an increase of £151.7 million, or 13.6%, primarily as a result of the increase in our active retail customers from 509,000 in FYE 2015 to 580,000 in FYE 2016 (an increase of 71,000 or 13.9%) and an increase in the average number of orders per week from 195,000 in FYE 2015 to 230,000 in FYE 2016. The 17.9% increase in the average number of orders per week was due to the continued focus by the business on our improving customer proposition.

The average order size was £108.10 in FYE 2016, a decrease of 2.7% compared to £111.15 in FYE 2015. The change was due to a reduction in number of items per order due to increased customer order frequency, which we encouraged by ongoing customer engagement initiatives such as our Ocado Smart Pass.

Our arrangement with Morrisons contributed £99.4 million of revenue in FYE 2016, reflecting growth of £25.5 million, or 34.5% from £73.9 million in FYE 2015. The growth was mainly driven by increased revenue from recharges for services provided to support the expansion of the Morrisons.com business. The fee income under the arrangement amounted to £19.5 million in FYE 2016, slightly higher than £18.8 million in FYE 2015, due to higher charges for management services due to increased volumes.

Gross profit

Cost of sales increased from £732.5 million in FYE 2015 to £835.7 million in FYE 2016, an increase of £103.2 million, or 14.1%. Gross profit increased from £375.1 million in FYE 2015 to £435.3 million in FYE 2016, an increase of £60.2 million, or 16.0%. Gross profit (Retail) was £301.4 million in FYE 2015 compared to £335.9 million in FYE 2016, an increase of 11.4% which is below the rate of revenue growth due to continued and deflationary pressure in the market, which resulted in a decrease in gross retail margin from 29.2% FYE 2015 to 28.7% in FYE 2016. Gross profit attributable to Morrisons recharges increased to £79.9 million in FYE 2016 from £54.9 million in FYE 2015 and for Morrisons fees it increased to £19.5 million in FYE 2016 from £18.8 million in FYE 2015.

Other income

Other income increased from £49.0 million in FYE 2015 to £52.9 million in FYE 2016, an increase of £3.9 million or 8.0%. Supplier income amounted to 3.3% of Revenue (Retail) in FYE 2016 (FYE 2015: 3.1%). Supplier income grew year-on-year and continues to grow slightly ahead of the rate of increase in revenue as we engage our suppliers in media and other opportunities on our customer

interfaces (including website, mobile apps and mobile websites). Other income also included £2.5 million (FYE 2015: £2.5 million) of rental income in FYE 2016, principally relating to the lease of Dordon CFC and £11.7 million (FYE 2015: £11.2 million) of income in FYE 2016 arising from the leasing arrangements with Morrisons for MHE assets. This income, for the MHE assets, is generated from charging MHE lease costs to Morrisons and equates to the additional depreciation and lease interest costs that we incur for the share of the MHE assets attributable to Morrisons.

Distribution costs

Distribution costs increased from £309.4 million in FYE 2015 to £365.7 million in FYE 2016, an increase of £56.3 million, or 18.2%. Excluding costs recharged to Morrisons and depreciation and amortisation, underlying distribution costs increased by 14.3% to FYE 2016.

The following table sets out our distribution costs for FYE 2015 and FYE 2016:

	FYE 2016	FYE 2015	Change
	(£ million)		%
Reported distribution costs	**365.7**	**309.4**	**18.2**
Costs recharged to Morrisons	(76.4)	(52.0)	46.9
Depreciation and amortisation	(41.8)	(40.8)	2.5
Underlying distribution costs	**247.5**	**216.6**	**14.3**

The increase in underlying distribution costs was primarily due to the increased number of employees in the CFC and delivery operations, the opening of two new Spokes in Crawley and Peterborough and the annualised impact of three Spokes (Dagenham, Milton Keynes and West Drayton) which opened in FYE 2015. These were offset by the impact of operational efficiencies achieved such as continued development of our route optimisation.

Depreciation of property, plant and equipment increased from £40.8 million in FYE 2015 to £41.8 million in FYE 2016, an increase of £1.0 million, or 2.5%. The increase was primarily due to increased investments in vehicles, new Spokes to support order growth offset by lower depreciation as a result of lower capital expenditures at our existing CFC's over recent years. We commenced operations at Andover CFC at the end of FYE 2016. As a result, the capital work in progress on Andover CFC and its associated mechanical handling equipment did not have a depreciation impact in the comparative period.

Overall mature CFC UPH (for Hatfield CFC and Dordon CFC combined) was 160 in FYE 2016 compared with 155 in FYE 2015. Deliveries per van per week have improved by 6.3% from 166 in FYE 2015 to 176 in FYE 2016 as customer density improved and we increased Sunday delivery slots.

Administrative expenses

Administrative expenses increased from £95.6 million in FYE 2015 to £100.6 million in FYE 2016, an increase of £5.0 million, or 5.2%. Excluding costs recharged to Morrisons and depreciation and amortisation, underlying administrative expenses increased by 7.4% to FYE 2016 but decreased as a percentage of Gross Sales (Retail) from 6.6% in FYE 2015 to 6.2% in FYE 2016.

The following table sets out our administrative expenses for FYE 2015 and FYE 2016:

	FYE 2016	FYE 2015	Change
	(£ million)		%
Reported administrative expenses	**100.6**	**95.6**	**5.2**
Costs recharged to Morrisons	(3.4)	(2.9)	17.2
Depreciation and amortisation	(18.4)	(19.3)	(4.7)
Underlying administrative expenses	**78.8**	**73.4**	**7.4**

The increase in underlying administrative was primarily due to additional costs to operate Morrisons.com, which are not specifically recharged to Morrisons and continued investments to support future growth. These cost increases were offset by lower share-based management incentive costs driven by the net effect of the maturity of the 2013 LTIP scheme.

Operating profit before result from joint venture and exceptional items

Operating profit before result from joint venture and exceptional items increased from £19.1 million in FYE 2015 to £21.9 million in FYE 2016, an increase of £2.8 million, or 14.7%.

Share of result from joint venture

Share of result from joint venture decreased from £2.3 million in FYE 2015 to £2.1 million in FYE 2016, a decrease of £0.2 million, or 8.7%. The decrease was principally due to a higher tax provision. For further details on the results of the MHE JVCo, see Note 3.4 (*Investments in Joint Ventures*) to the "*Consolidated Financial Statements for FYE 2016/FYE 2015—Notes to the Consolidated Financial Statements*".

Exceptional Items

Exceptional items amounted to £2.4 million in FYE 2016 compared to nil in FYE 2015. In FYE 2016, £1.7 million related to our head office move and litigation against payment providers. The balance of £0.7 million related to an accelerated depreciation charge as a result of our planned head office move.

Net finance costs

Net finance costs amounted to £9.5 million in both FYE 2016 and FYE 2015, principally reflecting obligations under finance leases. Finance income amounted to £0.2 million in both FYE 2015 and FYE 2016, each arising from interest on cash balances.

Profit before tax

Profit before tax increased from £11.9 million in FYE 2015 to £12.1 million in FYE 2016, an increase of £0.2 million, or 1.7%.

Taxation

The statutory rate of tax applicable was 21% in FYE 2015 and 20% in FYE 2016. We provided for £0.1 million of corporation tax for one of our legal entities that does not have available prior year losses or capital allowances. We had approximately £268.6 million (FYE 2015: £287.8 million) of unutilised carried forward tax losses at the end of the period. During 2016, we incurred £43.4 million (FYE 2015: £36.2 million) in a range of taxes including fuel duty, PAYE and Employers' National Insurance and business rates.

Profit for the period

We recorded a £11.8 million profit in FYE 2015 which increased to a £12.0 million profit in FYE 2016, an increase of £0.2 million, or 1.7%.

Comparison of financial results for FYE 2015 and FYE 2014

The following table sets out our consolidated income statement for FYE 2015 and FYE 2014:

	FYE 2015	FYE 2014	Change
	(£ million)		%
Revenue	**1,107.6**	**948.9**	**16.7**
Cost of sales	(732.5)	(636.0)	15.2
Gross profit	**375.1**	**312.9**	**19.9**
Other income	49.0	39.4	24.4
Distribution costs	(309.4)	(253.1)	22.2
Administrative expenses	(95.6)	(85.0)	12.5
Operating profit before result from joint venture and exceptional items	**19.1**	**14.2**	**34.5**
Share of result from joint venture	2.3	2.4	(4.2)
Exceptional items	—	(0.3)	—
Operating profit	**21.4**	**16.3**	**31.3**
Finance income	0.2	0.4	(50.0)
Finance costs	(9.7)	(9.5)	(2.1)
Profit before tax	**11.9**	**7.2**	**65.3**
Taxation	(0.1)	0.1	—
Profit for the period	**11.8**	**7.3**	**61.6**

The following table sets out selected unaudited operating information for FYE 2015 and FYE 2014:

	FYE 2015	FYE 2014	Change
			%
Average orders per week(1)	195,000	167,000	16.8
Average order size (£)(2)	111.15	112.25	(1.3)
CFC efficiency (units per hour)(3)	155	145	6.9
Average deliveries per van per week(4)	166	163	1.8
Average number of operational staff (full-time equivalent)	7,453	6,001	24.2
Product waste (%)(5)	0.7	0.8	(0.1)(6)

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

(1) Average orders per week is a measure of the order growth in our retail businesses and is used to evaluate the level of orders generated. Average orders per week refers to Ocado.com orders and includes standalone orders for Fetch.co.uk, Sizzle.co.uk and Fabled.com for periods where these destination sites were in operation. Average orders per week is calculated after cancelled orders are deducted.

(2) Average order size is a measure of the size of the average shopping basket and is used to monitor the size of average orders. Average order size refers to Ocado.com orders and excludes standalone orders and total sales for Fetch.co.uk, Sizzle.co.uk and Fabled.com for periods where these destination sites were in operation. Average order size is calculated after cancelled orders are deducted.

(3) CFC efficiency is measured using the units per labour hour ("UPH") efficiency measure and is a measure of the operational efficiency of mature CFCs. CFC efficiency (UPH) is measured as the number of units dispatched from the CFC per productive hour worked by operational personnel. A CFC is considered mature when it has been open for 12 months by the start of the half year reporting period. This measure includes our Hatfield and Dordon CFCs and excludes the Andover CFC which we opened at the end of FYE 2016.

(4) Average deliveries per van per week (DPV) measures efficiency of our service delivery operation through van utilisation. It is calculated as the number of deliveries completed by all vans per week divided by the total number of vans in our fleet. Average deliveries per van per week (DPV) does not include Morrisons deliveries and vans.

(5) Product waste (%) measures efficiency of our operations in terms of waste minimisation and allows the accuracy of buying forecasts to be monitored. Product waste is defined as products purged for having passed Ocado's "use by" life guarantee. Product waste (%) is calculated as the cost of product waste as a percentage of Gross Sales (Retail).

(6) Percentage point.

Revenue and Gross Sales

Revenue increased from £948.9 million in FYE 2014 to £1,107.6 million in FYE 2015, an increase of £158.7 million, or 16.7%, reflecting contributions from our retail business, as well as from our arrangement with Morrisons.

Gross Sales (Retail) increased from £972.4 million in FYE 2014 to £1,115.7 million in FYE 2015, an increase of £143.3 million, or 14.7%, primarily as a result of the increase in our active customer base from 453,000 in FYE 2014 to 509,000 in FYE 2015 (an increase of 56,000 or 12.4%) and an increase in the average number of orders per week from 167,000 in FYE 2014 to 195,000 in FYE 2015. The increase in average number of orders per week was partly offset by a decrease of 1.3% in the average order size to £111.2 in FYE 2015 compared to £112.7 in FYE 2014.

Our arrangement with Morrisons contributed £73.9 million of revenue in FYE 2015, reflecting growth of £28.8 million, or 63.9% from £45.1 million in FYE 2014. The growth was mainly driven by increased revenue from recharges for services provided to support the expansion of the Morrisons.com business. The fee income under the arrangement amounted to £18.8 million in FYE 2015 broadly in line with £17.3 million in FYE 2014, due to higher charges for management services due to increased volumes.

Gross profit

Cost of sales increased from £636.0 million in FYE 2014 to £732.5 million in FYE 2015, an increase of £96.5 million, or 15.2%, broadly in line with overall growth in revenues. Gross profit increased from £312.9 million in FYE 2014 to £375.1 million in FYE 2015, an increase of £62.2 million, or 19.9%. Gross profit (Retail) was £267.8 million in FYE 2014 compared to £301.4 million in FYE 2015, an increase of 12.6% which is below the rate of revenue growth due to increased price competition in the market reflected in a slight decrease in gross margin, expressed as gross profit as a percentage of Gross Sales (Retail), to 29.2% from 29.6%. Gross profit attributable to Morrisons recharges was £54.9 million in FYE 2015 and £27.8 million in FYE 2014 and for Morrisons fees it was £18.8 million in FYE 2015 and £17.3 million in FYE 2014.

Other income

Other income increased from £39.4 million in FYE 2014 to £49.0 million in FYE 2015, an increase of £9.6 million or 24.4%. Supplier income represented 3.1% of Revenue (Retail) in FYE 2015 compared to 3.0% in FYE 2014. Media related activities remained in line with FYE 2015, as we increasingly engaged our suppliers in media and other opportunities on our customer interfaces (including website, mobile apps and mobile websites). Other income also included £11.2 million of income in FYE 2015 arising from the leasing arrangements with Morrisons for MHE assets compared to £8.9 million in FYE 2014, as well as £2.5 million of rental income in FYE 2015 relating to the lease of Dordon CFC (FYE 2014: £2.5 million). This income, for the MHE assets, is generated from charging MHE lease costs to Morrisons, and when combined with the share of result from joint venture, equates to the additional depreciation and lease interest costs that we incur for the share of the MHE assets attributable to Morrisons. Other income also included a second and final payment of £3.2 million for the surrender of the lease at our former White City operations which were transferred to a new build site nearby at Park Royal.

Distribution costs

Distribution costs increased from £253.1 million in FYE 2014 to £309.4 million in FYE 2015, an increase of £56.3 million, or 22.2%. Excluding costs recharged to Morrisons and depreciation and amortisation, underlying distribution costs increased by 12.1% to FYE 2015.

The following table sets out our distribution costs for FYE 2015 and FYE 2014:

	FYE 2015	FYE 2014	Change
	(£ million)		%
Reported distribution costs	**309.4**	**253.1**	**22.2**
Costs recharged to Morrisons	(52.0)	(24.0)	116.7
Depreciation and amortisation	(40.8)	(35.8)	14.0
Underlying distribution costs	**216.6**	**193.3**	**12.1**

The increase in underlying distribution costs was primarily due to the increased number of employees in the CFC and delivery operations, the opening of three Spokes (Dagenham, Milton Keynes and West Drayton), and the move from the London Spoke at White City to Park Royal. These were offset by the impact of operational efficiencies achieved such as continued development of our route optimisation.

Depreciation of property, plant and equipment increased from £35.8 million in FYE 2014 to £40.8 million in FYE 2015, an increase of £5.0 million, or 14.0%. The increase was due to the additional depreciation charges on new capital investment to develop the Dordon CFC.

Overall mature CFC UPH (for Hatfield CFC and Dordon CFC combined) was 155 in FYE 2015 compared with 145 in FYE 2014. The improvement in mature CFC UPH for FYE 2015 was driven mainly by productivity at Dordon CFC.

Administrative expenses

Administrative expenses increased from £85.0 million in FYE 2014 to £95.6 million in FYE 2015, an increase of £10.6 million, or 12.5%. Excluding costs recharged to Morrisons and depreciation and amortisation, underlying administrative expenses increased by 18.2% to FYE 2015 but decreased as a percentage of Gross Sales (Retail) from 6.2% in FYE 2014 to 6.4% in FYE 2015.

The following table sets out our administrative expenses for FYE 2015 and FYE 2014:

	FYE 2015	FYE 2014	Change
	(£ million)		%
Reported administrative expenses	**95.6**	**85.0**	**12.5**
Costs recharged to Morrisons	(2.9)	(3.8)	(23.7)
Depreciation and amortisation	(19.3)	(19.1)	(1.0)
Underlying administrative expenses	**73.4**	**62.1**	**18.2**

The increase in underlying administrative expenses was primarily due to additional costs to operate Morrisons.com, which are not specifically recharged to Morrisons but for which the Group earns fees and continued investment in our strategic initiatives to support future growth in our general merchandise business and Solutions Business. Share based management incentive costs increased due to the introduction of a third annual long term incentive plan award for FYE 2015 (first introduced in 2013).

Operating profit before result from joint venture and exceptional items

Operating profit before result from joint venture and exceptional items increased from £14.2 million in FYE 2014 to £19.1 million in FYE 2015, an increase of £4.9 million, or 34.5%.

Share of result from joint venture

Share of result from joint venture decreased from £2.4 million in FYE 2014 to £2.3 million in FYE 2015, a decrease of £0.1 million, or 4.2%. For further details on the results of the MHE JVCo, see Note 3.4 *(Investments in Joint Ventures)* to the "*Consolidated Financial Statements for FYE 2015/FYE 2014—Notes to the Consolidated Financial Statements*".

Exceptional Items

Exceptional items amounted to £0.3 million in FYE 2014 and nil in FYE 2015. Exceptional items in FYE 2014 related to corporate restructuring initiatives. For further details on this restructuring initiative, see Note 2.7 to the Consolidated Financial Statements for FYE 2015.

Net finance costs

Net finance costs, principally consisting of borrowing costs related to obligations under finance leases, amounted to £9.1 million in FYE 2014 and increased by £0.4 million, or 4.4%, to £9.5 million in FYE 2015. Net finance costs exclude £0.9 million of prepaid commitment fees which were incurred in FYE 2015 in connection with our £210.0 million Revolving Credit Facility and £1.6 million of additional arrangement fees. Finance income amounted to £0.4 million in FYE 2014 and £0.2 million in FYE 2015. The decrease in finance income was principally attributable to lower interest income on bank deposits.

Profit before tax

Profit before tax increased from £7.2 million in FYE 2014 to £11.9 million in FYE 2015, an increase of £4.7 million, or 65.3%.

Taxation

The statutory rate of tax applicable was 23% in FYE 2014 and 21% in FYE 2015. A deferred tax credit of £0.1 million was recognised in FYE 2014 and a current or deferred tax charge of £0.1 million was recognised in both FYE 2014 and 2015. At the end of FYE 2015, we had approximately £287.8 million of unutilised carried forward tax losses (FYE 2014: £285.3 million). During FYE 2015, we incurred £36.2 million in a range of taxes including fuel duty, PAYE and Employers' National Insurance and business rates (FYE 2014: £29.1 million).

Profit for the period

We recorded a £7.3 million profit in FYE 2014 which increased to a £11.8 million profit in FYE 2015, an increase of £4.5 million, or 61.6%.

Liquidity and capital resources

We financed our operations principally through cash from operations supplemented, as needed, principally by a secured mortgage, finance leases and bank facilities. Our principal uses of cash were for operating expenses, capital expenditure, working capital requirements as well as the payment of interest and repayment of principal on borrowings and leases.

Cash flow analysis for P5 2017 and P5 2016

The following table sets out our selected cash flow information for P5 2017 and P5 2016:

	For the 22 weeks ended 30 April 2017	For the 20 weeks ended 17 April 2016
	(£ million)	
Net cash inflow from operating activities	37.5	49.2
Net cash used in investing activities	(75.1)	(37.7)
Net cash from/(used in) financing activities	28.6	4.2
Net (decrease)/increase in cash and cash equivalents	**(9.0)**	**15.7**

Operating activities

	For the 22 weeks ended 30 April 2017	For the 20 weeks ended 17 April 2016
	(£ million)	
Profit before tax	6.7	4.6
Adjustments for:		
Depreciation, amortisation and impairment losses	27.4	23.0
Movement in provisions	(1.0)	0.6
Share of profit in joint venture	(0.6)	(0.6)
Share-based payments charge	2.7	3.0
Net finance costs	3.5	3.7
Changes in working capital:		
Movement in inventories	5.6	1.0
Movement in trade and other receivables	(13.3)	(7.9)
Movement in trade and other payables	10.2	25.5
Cash generated from operations	**41.2**	**52.9**
Interest paid	(3.7)	(3.7)
Net cash inflow from operating activities	**37.5**	**49.2**

Net cash flow from operating activities was an inflow of £37.5 million in P5 2017 compared to an inflow of £49.2 million in P5 2016. The reduction in cash inflow was primarily due to a reduction in changes to working capital, which comprise movements in inventories, trade and other receivables, and trade and other payables, and is principally due to the impact of the change in the comparable period end dates. Trade and other receivables comprise mainly monies due from suppliers in relation to media and other commercial income made up of media and supplier rebate income receivables. Trade and other payables includes balances due to suppliers on products sold by us, balances due to non-trading creditors (such as fuel, insurance and marketing costs) and other accruals, including CFC costs. The negative working capital movement included a £10.2 million increase in trade payables primarily due to increased trade accruals and trade payables attributable to inventory. The increase in trade and other receivables of £13.3 million in P5 2017 primarily reflected an increase in receivables from Morrisons and MHE JVCo.

Investing activities

	For the 22 weeks ended 30 April 2017	For the 20 weeks ended 17 April 2016
	(£ million)	
Purchase of property, plant and equipment.	(53.7)	(26.3)
Purchase of intangible assets	(21.4)	(11.4)
Dividend received from joint venture	—	—
Interest received	—	—
Net cash flows from investing activities	**(75.1)**	**(37.7)**

Net cash outflows from investing activities increased from £37.7 million in P5 2016 to £75.1 million in P5 2017, primarily due to increased capital expenditure on property, plant and equipment and increased expenditure on intangible assets.

The difference between the capital expenditure set out below and cash used in investing activities set out in the table above is due to the accounting treatment of assets being financed by financing leases and the timing of the payment of invoices received but unpaid at the end of the financial year. Net cash used for investing activities is a cash flow measure and excludes any assets which are lease financed in the relevant financial year or invoices related to capital expenditure which are unpaid at the end of the financial year.

Financing activities

	For the 22 weeks ended 30 April 2017	For the 20 weeks ended 17 April 2016
	(£ million)	
Proceeds from the issue of ordinary share capital net of transaction costs	0.4	0.5
Proceeds from borrowings	57.5	10.0
Repayment of borrowings	(22.5)	—
Repayment of obligations under finance leases	(6.4)	(5.8)
Payment of financing fees	(0.4)	(0.5)
Settlement of cash flow hedges	—	—
Net cash from financing activities	**28.6**	**4.2**

Net cash from financing activities moved from an inflow of £4.2 million in P5 2016 to an inflow of £28.6 million in P5 2017. The movement is primarily a result of an increase in new borrowings, including a net drawdown of £35.0 million on our Revolving Credit Facility during the period, offset by the repayment of obligations under other borrowings.

Cash flow analysis for FYE 2016 and FYE 2015

The following table sets out our selected cash flow information for FYE 2016 and FYE 2015:

	FYE 2016	FYE 2015
	(£ million)	
Net cash inflow from operating activities	96.9	82.8
Net cash used in investing activities	(115.3)	(90.8)
Net cash from/(used in) financing activities	23.5	(22.5)
Net increase/(decrease) in cash and cash equivalents	**5.1**	**(30.5)**

Operating activities

	FYE 2016	FYE 2015
	(£ million)	
Profit before tax	12.1	11.9
Adjustments for:		
Depreciation, amortisation and impairment losses	61.0	60.1
Movement in provisions	0.6	3.2
Share of profit in joint venture	(2.1)	(2.3)
Share-based payments charge	6.4	7.8
Foreign exchange movements	—	—
Net finance costs	9.5	9.5
Changes in working capital:		
Movement in inventories	(9.2)	(2.3)
Movement in trade and other receivables	2.5	(19.1)
Movement in trade and other payables	25.2	23.7
Cash generated from operations	**106.0**	**92.5**
Interest paid	(9.1)	(9.7)
Net cash inflow from operating activities	**96.9**	**82.8**

Net cash flow from operating activities increased to an inflow of £96.9 million in FYE 2016 from an inflow of £82.8 million in FYE 2015. The improved cash inflow was principally due to the improved operating profit in FYE 2016 and an improvement in changes to working capital, which comprise movements in inventories, trade and other receivables, and trade and other payables. Trade and other receivables comprise mainly monies due from suppliers in relation to media and other commercial income. Trade receivables in respect of consumer sales are typically low due to the nature of our

business. Trade and other payables includes balances due to suppliers on products sold by us, balances due to non-trading creditors (such as fuel, insurance and marketing costs) and other accruals, including CFC costs. The positive working capital movement included a £25.2 million increase in trade payables primarily due to increased trade accruals and trade payables attributable to inventory increases prior to year end FYE 2016 and favourable movements in trade and other receivables. The increase in trade and other receivables of £19.1 million in FYE 2015 principally reflected an increase in receivables from Morrisons and MHE JVCo.

Investing activities

	FYE 2016	FYE 2015
	(£ million)	
Purchase of property, plant and equipment.	(85.3)	(70.7)
Purchase of intangible assets	(38.6)	(28.4)
Dividend received from joint venture	8.4	8.1
Interest received	0.2	0.2
Net cash flows from investing activities	**(115.3)**	**(90.8)**

Net cash outflows from investing activities increased from £90.8 million in FYE 2015 to £115.3 million in FYE 2016, principally due to increased capital expenditure on property, plant and equipment and increased expenditure on intangible assets.

Financing activities

	FYE 2016	FYE 2015
	(£ million)	
Proceeds from the issue of ordinary share capital net of transaction costs	1.1	4.5
Proceeds from borrowings	61.3	8.2
Repayment of borrowings	(11.5)	(5.6)
Repayment of obligations under finance leases	(26.4)	(26.9)
Payment of financing fees	(1.2)	(2.5)
Settlement of cash flow hedges	0.2	(0.2)
Net cash from/(used in) financing activities	**23.5**	**(22.5)**

Net cash from financing activities moved from an outflow of £22.5 million in FYE 2015 to an inflow of £23.5 million in FYE 2016. The movement is principally a result of an increase in new borrowings, including a £52.5 million drawdown on our Revolving Credit Facility, which was partly offset by the repayment of obligations under other borrowings.

Cash flow analysis for FYE 2015 and FYE 2014

The following table sets out our selected cash flow information for FYE 2015 and FYE 2014:

	FYE 2015	FYE 2014
	(£ million)	
Net cash inflow from operating activities	82.8	75.5
Net cash used in investing activities	(90.8)	(78.3)
Net cash/(used in) from financing activities	(22.5)	(31.4)
Net decrease in cash and cash equivalents	**(30.5)**	**(34.2)**

Operating activities

	FYE 2015	FYE 2014
	(£ million)	
Profit before tax	11.9	7.2
Adjustments for:		
Depreciation, amortisation and impairment losses	60.1	55.0
Movement in provisions	3.2	1.9
Share of profit in joint venture	(2.3)	(2.4)
Share-based payments charge	7.8	4.4
Foreign exchange movements	—	0.1
Net finance costs	9.5	9.1
Changes in working capital:		
Movement in inventories	(2.3)	(3.6)
Movement in trade and other receivables	(19.1)	(0.3)
Movement in trade and other payables	23.7	13.8
Cash generated from operations	**92.5**	**85.2**
Interest paid	(9.7)	(9.7)
Net cash inflow from operating activities	**82.8**	**75.5**

Net cash flow from operating activities increased to an inflow of £82.8 million in FYE 2015 from an inflow of £75.5 million in FYE 2014. The improved cash inflow was principally due to the improved operating profit in FYE 2015 and an increase in non cash adjustments such as depreciation and share based payments. The positive working capital movement included a £23.7 million increase in trade payables principally due to increased trade accruals, which was largely offset by an increase in trade and other receivables of £19.1 million principally due to an increase in receivables from Morrisons and MHE JVCo.

Investing activities

	FYE 2015	FYE 2014
	(£ million)	
Purchase of property, plant and equipment.	(70.7)	(53.0)
Purchase of intangible assets	(28.4)	(25.8)
Dividend received from joint venture	8.1	—
Interest received	0.2	0.5
Net cash flows from investing activities	**(90.8)**	**(78.3)**

Net cash outflows from investing activities increased from £78.3 million in FYE 2014 to £90.8 million in FYE 2015, principally due to increased capital expenditure on property, plant and equipment and increased expenditure on intangible assets, comprising investments in CFC Andover, development of our next generation fulfilment solution and spend on spoke sites. We also received the first dividend of £8.1 million from MHE JVCo in FYE 2015.

Financing activities

	FYE 2015	FYE 2014
	(£ million)	
Proceeds from the issue of ordinary share capital net of transaction costs	4.5	3.7
Proceeds from borrowings	8.2	—
Repayment of borrowings	(5.6)	(2.9)
Repayment of obligations under finance leases	(26.9)	(30.5)
Payment of financing fees	(2.5)	(1.2)
Settlement of cash flow hedges	(0.2)	(0.5)
Net cash from/(used in) financing activities	**(22.5)**	**(31.4)**

Net cash from financing activities moved from an outflow of £31.4 million in FYE 2014 to an outflow of £22.5 million in FYE 2015. The movement is principally a result of an increase in borrowings

and a reduction in the repayment of obligations under finance leases. These movements were partly offset by an increase in the repayment of obligations under other borrowings.

External sources of funding, financing and debt

We closely manage our trading capital, which we define as net assets plus net debt. External Net debt is calculated as total debt (finance leases and borrowings as shown in the balance sheet), less cash and cash equivalents.

The main areas of our capital management revolve around the management of the components of working capital, including monitoring stock turn, age of stock, age of debtors, debtor days, creditor days, balance sheet re-forecasting, period projected loss, weekly cash flow forecasts, and daily cash balances. We typically have a negative working capital position (in line with other food retailers) as a result of low inventory days and minimal debtors. In periods of growth, we benefit from cash inflows as a result of creditors days being longer than those of inventory and receivables. Major investment decisions are based on reviewing the expected future cash flows and all major capital expenditure requires approval from the Board.

Our net debt increased from £99.4 million at the end of FYE 2014 to £127.0 million at the end of FYE 2015, £164.9 million at the end of FYE 2016 and £206.8 million at the end of P5 2017. External Net Debt was £56.2 million at the end of FYE 2016 and £98.7 million at the end of P5 2017 (FYE 2015: £7.5 million; FYE 2014: external net cash £31.4 million), which excludes finance lease obligations of £108.7 million as of 27 November 2016, and £108.1 million as of P5 2017 (FYE 2015: £119.5 million; FYE 2014: £130.8 million) payable to MHE JVCo.

				Principal amount outstanding			
Lender	**Original facility amount**	**Maturity**	**Interest rate**	**As at 30 April 2017**	**As at 27 November 2016**	**As at 29 November 2015**	**As at 30 November 2014**
	(£ million)			**(£ million)**			
Secured loans							
Property Finance[2]	8.2	September 2018	LIBOR +1.5%	6.6	7.2	8.2	—
Asset based finance[1]	2.5	July 2017	9.12%[3]	0.2	0.5	1.1	1.5
Asset based finance[1]	8.0	February 2015	Clearing bank base rate +3.0%	0	—	—	0.8
Discharged property leases	8.4	—	—	—	—	—	4.4
Unsecured loans							
Revolving Credit Facility	210.0	July 2019[4]	LIBOR + 1.5%	85.3	51.3[3]	—	—
Obligations under finance leases							
Property	16.5	March 2022	6.32%[3]	6.6	7.1	8.1	9.1
Vehicle	63.8[6]	2017-2023[6]	4.94%[3][6]	41.8	40.8	34.9	26.0
MHE	21.6[6]	May 2017[6]	6.57%[3][6]	0	0.2	1.0	3.1
MHE JVCo	152.7[6]	2018-2025[6]	5.14%[3][6]	108.1	108.7	119.5	130.8
Total borrowings and leases				**248.6**	**215.8**	**172.8**	**175.7**

(1) Secured over the assets to which the finance relates.
(2) Secured over freehold property.
(3) Calculated as the effective interest rate, the calculation of which includes an optional balloon payment at the end of the term.
(4) Date of expiry of facility.
(5) Reflects drawn amounts as at 27 November 2016.
(6) Finance leases represent groups of assets, the facilities profile is stated for unmatured leases as at 27 November 2016.

Summarized below are certain of our financing arrangements as at 30 April 2017. These summaries should be considered in connection with a further description of our debt below. See, "*Description of Other Debt*".

Revolving Credit Facility

On 1 July 2014, Ocado Holdings Limited entered into a senior revolving credit facility, amended and restated on 29 June 2015, to provide a total capacity of £210.0m with a termination date of 1 July 2019 (the "Revolving Credit Facility").

As at 30 April 2017 drawdowns on the facility totalled £87.5 million. We expect that all amounts outstanding under this facility will be repaid in full using the proceeds of the Offering. This facility will be amended and restated in connection with the Financing Transactions. For a description of the terms of the Amended and Restated Senior Credit Facility Agreement, see "*Description of Other Debt*".

2015 Sterling Term Loan

On 17 June 2015, Ocado entered into a Sterling Term Loan with Barclays Bank Plc of £8.2 million (the "Sterling Term Loan Agreement"). This loan bears interest at LIBOR plus a margin of 1.5 per cent per year and is secured against a number of Ocado's spoke properties.

Quarterly repayments are made against this loan and as at 30 April 2017 the outstanding balance stood at £6.6 million. The loan expires on 6 September 2018 at which time a single final repayment becomes due of £5.4 million.

See "*Description of Other Debt*" and "*Use of Proceeds*".

MHE Sale and Leaseback

On 25 July 2013, Ocado Limited (subsequently known as Ocado Retail Limited) and MHE JVCo entered into an English law governed MHE purchase agreement with respect to the mechanical handling plant and equipment and certain other related assets and equipment located at the Dordon CFC (the "Dordon MHE"), pursuant to which MHE JVCo purchased the Dordon MHE. On 25 July 2013, Ocado Limited (subsequently known as Ocado Retail Limited) and MHE JVCo entered into an English law governed MHE lease agreement with respect to the Dordon MHE (the "Dordon MHE Lease Agreement"). Pursuant to a group restructuring in 2014, this lease agreement was novated to Ocado Operating Limited.

Pursuant to the Dordon MHE Lease Agreement, MHE JVCo leases the Dordon MHE to Ocado Operating Limited for a specified lease fee. As at 30 April 2017, the principal amount outstanding on the finance lease payable under the Dordon MHE Lease Agreement is £108.1 million.

See "*Description of Other Debt*".

Vehicle Leasing

We enter into secured finance lease arrangements with a number of lenders in connection with the purchase of vehicles required for operations. Leases are typically entered into for a period of 5-7 years. The lease obligations are secured by our vehicles.

The finance lease obligations outstanding in connection to vehicle finance as at 30 April 2017 was £41.8 million of which £12.1 million was payable within 1 year. At the same date Ocado had available facilities for further vehicle finance of £24.5 million, providing sufficient headroom for anticipated vehicle requirements.

See "*Description of Other Debt*".

Derivative financial instruments

As at 30 April 2017 Ocado had a derivative financial liability of £0.5 million in relation to cashflow hedges in place to swap floating diesel price exposure for fixed rates. To date, the hedges are fully effective and we have not recorded any income statement impact relating to these hedges.

Amended and Restated Senior Credit Facility

In connection with the Offering, we expect to enter into the Amended and Restated Senior Credit Facility Agreement. For a description of this and related financing arrangements, see "*Description of Other Debt*".

Capital Expenditure

We have focused our capital expenditure on four main areas to support our long-term growth plans, including increasing the capacity and operating efficiency of our CFCs, increasing the capacity of the distribution network, growing our van fleet and replacing vehicles as they age and ongoing development of IT capabilities and infrastructure.

The following table sets out our capital expenditure (unaudited) for P5 2017, P5 2016, FYE 2016, FYE 2015 and FYE 2014:

	For the 22 weeks ended 30 April 2017	For the 20 weeks ended 17 April 2016	FYE 2016	FYE 2015	FYE 2014
		(£ million)			
Mature CFCs	0.5	0.7	3.3	3.2	10.9
New CFCs	26.3	13.2	64.6	52.9	16.5
Delivery	10.0	12.6	20.6	25.3	22.1
Technology	16.6	11.0	34.3	23.0	16.8
Fulfilment Development	6.3	3.5	19.7	13.3	16.3
Other	2.9	0.6	10.5	4.4	3.8
Total capital expenditure(1)(2) (excluding share of MHE JVCo)	**62.6**	**41.6**	**153.0**	**122.1**	**86.4**
Total capital expenditure(3) (including share of MHE JVCo)	**63.2**	**42.7**	**156.9**	**126.5**	**98.1**

(1) Includes investments in tangible and intangible assets.
(2) Excludes assets leased from MHE JVCo under finance lease arrangements.
(3) Includes Ocado share of the MHE JVCo of £0.6 million in P5 2017, £1.1 million in P5 2016, £3.9 million in 2016, £4.4 million in 2015 and £11.7 million in 2014.

P5 2017 and P5 2016

Total investment in Mature CFCs was £0.5 million in P5 2017, excluding capital expenditure relating to MHE JVCo of £0.6 million which related to a number of small projects to improve the capacity and resiliency of these sites. We incurred £26.3 million of costs in P5 2017 for the build and installation of our proprietary infrastructure at our new CFCs. Andover commenced operations at the end of 2016 and has steadily increased volumes during 2017, requiring the purchase of additional robots. The fit out of the next CFC located in Erith, South East London continued according to plan and this site is expected to open in 2018.

Delivery capital expenditure amounted to £10.0 million in P5 2017 compared to £12.6 million in P5 2016. This included investment in new trailers and vans of £6.1 million (P5 2016: £9.3 million) to support our business growth and replace vehicles at the end of their useful lives. These assets are typically on five year financing contracts.

We continued to develop our own proprietary software and incurred £16.6 million (P5 2016: £11.0 million) of internal development costs in P5 2017 which were capitalised as intangible assets in the period. The main areas of investment were the re-platforming of our technology and migration of most of our systems to run in the public or private cloud, improvements in the efficiency of our routing systems, enhancements to our customer proposition, developing a storepick solution for implementation by Morrisons and support for the ramp-up of Andover.

Fulfilment development capital expenditure of £6.3 million (P5 2016: £3.5 million) was incurred to further develop our next generation fulfilment solution which is being used in our new CFCs.

Other capital expenditure amounted to £2.9 million in P5 2017, which included £1.6 million invested in our general merchandise business to support growth in capacity in our existing general merchandise facility.

We expect capital expenditure in 2017 to be approximately £175 million which mainly comprises the continuing investment in our infrastructure and technology solutions, roll out of our new CFCs and additional investment in new vehicles to support business growth and the replacement of vehicles coming to the end of their five year financing contracts.

These forward-looking statements may be affected by the factors set forth in "*Risk Factors*" and "*Cautionary Note Regarding Forward-Looking Statements*".

FYE 2016, 2015 and 2014

Total investment in Mature CFCs was £3.3 million in FYE 2016, excluding capital expenditure relating to MHE JVCo of £3.9 million. The investments related to resiliency projects, for example installing additional chillers and crane and conveyor improvements, as well as capacity and productivity projects at the existing sites, including upgrading pick station scanners.

We incurred £64.6 million of costs in FYE 2016 for the build and installation of our proprietary infrastructure at our new CFCs, including £38.6 million of costs on the Erith CFC site.

Delivery capital expenditure amounted to £20.6 million in FYE 2016 compared to £25.3 million in FYE 2015 (FYE 2014: £22.1 million). This included investment in new vehicles of £13.6 million (FYE 2015: £14.0 million) to support our business growth and replace vehicles at the end of their useful lives. These assets are typically on five year financing contracts. We also invested in new Spokes of £2.0 million, which included the Crawley spoke which opened in April 2016 and the Peterborough spoke which opened in August 2016.

We continued to develop our own proprietary software and incurred £26.8 million (FYE 2015: £18.1 million; FYE 2014: £14.1 million) of internal development costs in FYE 2016 which were capitalised as intangible assets in the period, with a further £7.5 million (FYE 2015: £4.9 million; FYE 2014: £2.7 million) spent on computer hardware and software. Our technology headcount grew to over 950 staff at the end of the period (FYE 2015: over 700 staff; FYE 2014: 550 staff) as increased investments were made to support our strategic initiatives, including major replatforming of our technology and migration of most of our systems to run on a public or private cloud. In addition, we invested internal technology resources as part of developing capital projects for Dordon CFC and the further development of the Morrisons proposition.

Fulfilment development capital expenditure of £19.7 million was incurred in FYE 2016 (FYE 2015: £13.3 million) to further develop our next generation fulfilment solution which is planned for use in our new CFCs and for Solutions Business customers.

Other capital expenditure of £10.5 million in FYE 2016, included £5.8 million of capital expenditure related mainly to our head office move. In addition to this, we spent £3.5 million in FYE 2016 in our general merchandise business to support growth in capacity in our existing general merchandise facility and the fit out and costs associated with the development of our new Fabled flagship store and online offering.

At 27 November 2016, capital commitments contracted, but not provided for by us, amounted to £34.4 million (29 November 2015: £22.3 million). This increase was mainly driven by commitments in our new CFCs.

Contingencies and commitments

The following table sets out an analysis of our contractual obligations at the end of FYE 2016 into their relevant maturity groups based on the remaining period at the end date of the financial period to the contractual maturity date. The amounts reflect the carrying value and undiscounted contractual cash flows.

	As at 27 November 2016					
	Carrying value	Contractual cash flows	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
	(£ million)					
Secured loans	(7.7)	(7.7)	(1.6)	(6.1)	—	—
Unsecured loans	(51.3)	(51.3)	(51.3)	—	—	—
Trade payables[1]	(95.2)	(95.2)	(95.2)	—	—	—
Operating lease obligations[2]	(375.7)	(375.7)	(20.3)	(20.4)	(54.8)	(280.2)
Obligations under finance leases	(156.8)	(183.8)	(38.4)	(31.7)	(76.9)	(36.8)
Derivative liabilities	(0.2)	(0.2)	(0.2)	—	—	—
Capital commitments[3]	(34.4)	(34.4)	(34.4)	—	—	—
Total	(721.3)	(748.3)	(241.4)	(58.2)	(131.7)	(317.0)

(1) Does not include other taxation and deferred income.
(2) Minimum lease payments under non-cancellable operating leases.
(3) Contracts placed for future capital expenditure not provided in the consolidated financial statements.

Off balance sheet arrangements and contingent liabilities

As of FYE 2016, we had no off balance sheet arrangements, as determined for purposes of IFRS.

Quantitative and qualitative disclosure on market risk

Our operations and financing arrangements expose us to a variety of financial risks that include the effects of changes in debt market prices, credit risks, liquidity risks and interest rates. For a discussion of these risks, see Note 4.8 (*Financial Risk Management*) to the "*Consolidated Financial Statements for FYE 2016/FYE 2015—Notes to the Consolidated Financial Statements*".

Significant accounting policies and critical estimates, judgments and assumptions

The preparation of our consolidated financial statements requires estimates and assumptions that affect the application of policies and reported amounts. Estimates and assumptions are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Significant accounting policies are those accounting estimates that require management to make assumptions about matters that are uncertain at the time the estimates are made and would have resulted in material changes to the consolidated financial statements if different estimates, which management reasonably could have used, were made. For a discussion of these significant accounting policies, see Note 1.4 (*Significant Accounting Policies and Critical Estimates, Judgments and Assumptions*) to the "*Consolidated Financial Statements for FYE 2016/FYE 2015—Notes to the Consolidated Financial Statements*". For a description of the basis of preparation of our financial statements, including a discussion of IFRS standards that are not yet effective, including IFRS 15 (*Revenue from contracts with customers*) and IFRS 16 (*Leases*), but which we continue to review, see Note 1.2 (*Basis of Preparation*) and Note 1.3 (*Basis of Consolidation*) to the "*Consolidated Financial Statements for FYE 2016/FYE 2015—Notes to the Consolidated Financial Statements*".

The U.K. retail sector, across all sales channels, was estimated to have had approximately £360 billion of sales[1] in 2016 and to have grown at a Compounded Annual Growth Rate ("**CAGR**") of 2.4% between 2011 and 2016 (Euromonitor). Euromonitor estimates a steady CAGR of 3.3% between 2016 and 2021.

Grocery retailing is the single largest category of retail spending in the U.K. representing approximately 50% of total retail sales. Although the U.K. retail grocery sector's estimated CAGR between 2011 and 2016 has been slower than that of the U.K. retail sector as a whole, the U.K. online grocery sector has grown significantly more quickly than both the U.K. retail and retail grocery sectors during that period.

As U.K. shoppers continue the trend of moving from the traditional bricks and mortar grocery market to online, there is significant scope for continued growth. The U.K. online grocery market now represents approximately 5% (2016) of the total U.K. grocery market and it is estimated that it will reach approximately 7% by 2021 (IGD, June 2017).

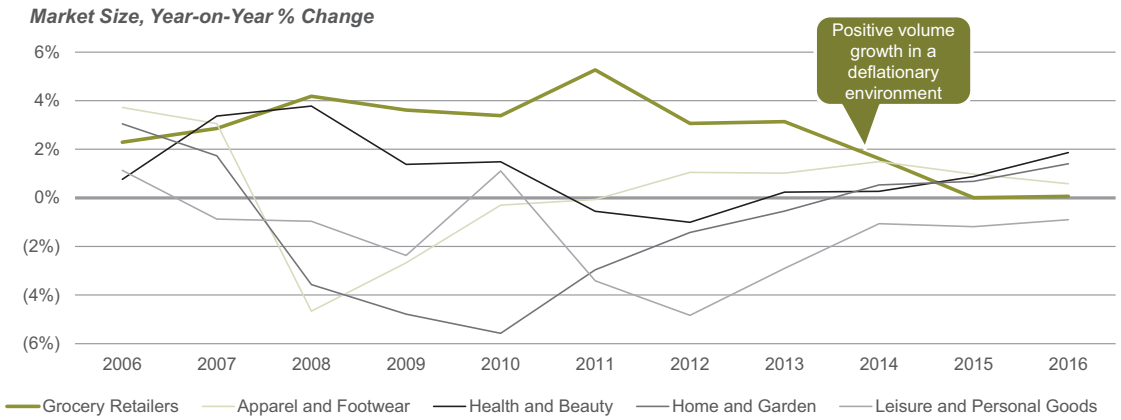
U.K. Grocery Retail Market Overview

Grocery retail sales are effected via multiple channels including hypermarkets, supermarkets, discounters, convenience stores, online, chained and independent garage forecourt retailers, category specialists and other small and independent grocery retailers.

As described above, grocery retail is the single largest category of retail spending in the U.K. (Euromonitor and IGD) and in 2016 it represented approximately £180 billion of sales. Unlike many other categories of consumer spending, groceries comprise a necessary and regular retail spend as compared to more discretionary spending categories such as clothing and footwear, consumer electronics and consumer appliances, resulting in a resilient segment.

In the last 10 years, grocery is the only major retail category[2] in the U.K. not to have experienced negative growth (year-on-year), despite macroeconomic uncertainties and a deflationary environment since 2014.

Resilience of U.K. Grocery Retail Category Across Cycles



Source: Euromonitor. Growth in value sales (at current prices)

Overall, sales value in the U.K. grocery retail market grew at a CAGR of 1.9% between 2011 and 2016 and it is estimated that it will grow at a faster pace until 2021 (2016-21E CAGR of 2.9%) (IGD). While this is a slower anticipated growth rate than the U.K. retail sector as a whole, as described in more detail below, it is believed that the U.K. online grocery retail market will continue to grow at a significantly faster rate.

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(1) Value sales at current prices

(2) Major retail categories refer to Grocery, Apparel & footwear, Health & Beauty, Home & Garden and Leisure & Personal Goods

In recent years, market channels and customer habits have been changing. Large supermarket chains have shifted away from out of town large store formats towards smaller-proximity formats such as branded convenience stores. The industry has also seen the rapid growth of discounters (notably Aldi and Lidl) who have competed through differentiation on price. In addition, the industry has experienced a shift towards decreasing basket sizes and increasing frequency of purchases.

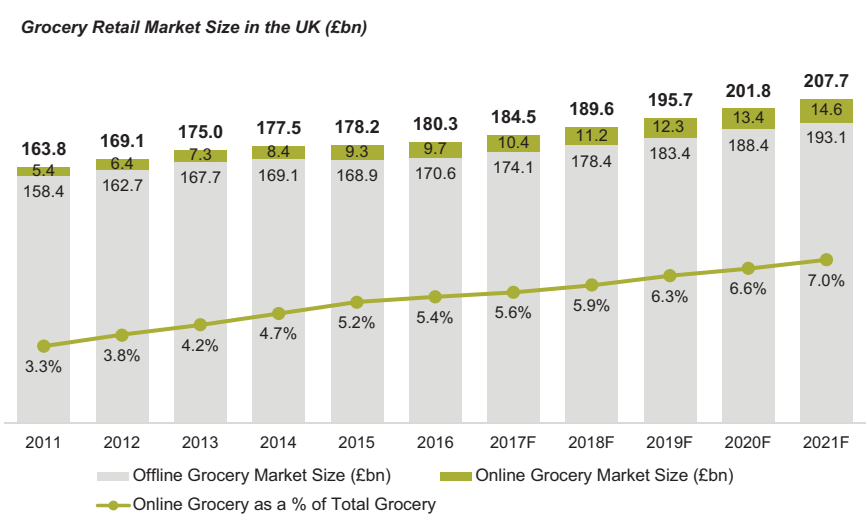
In addition to shifts within the physical store market, the U.K. grocery retail market has also seen an increasing shift away from physical stores to online purchasing as described below, with online grocery sales having grown significantly faster than those of physical stores.

As a leading dedicated online grocery operator with strong e-commerce capabilities (proven business model, proprietary technology and superior service levels and customer proposition), Ocado believes it is ideally positioned to capitalise on the trend towards online purchasing in the U.K. grocery retail market.

U.K. Online Grocery Retail Market Overview

Ocado operates in the U.K. online grocery market, which was estimated to have £9.7 billion in sales in 2016 (IGD). The segment has reported strong sales growth historically with 12.4% CAGR (2011-16, IGD). The strong growth in sales is expected to continue in the near term, with a 8.5% CAGR (2016-21E, IGD), reflecting U.K. consumers' trend to move away from shopping for groceries in stores to shopping online, particularly using mobile devices. The growth of online grocery retail in the U.K. has been driven by shoppers' increasing appetite for convenience and digital connectivity and by service enhancements in online operations.

Demand shift away from Bricks & Mortar to Online



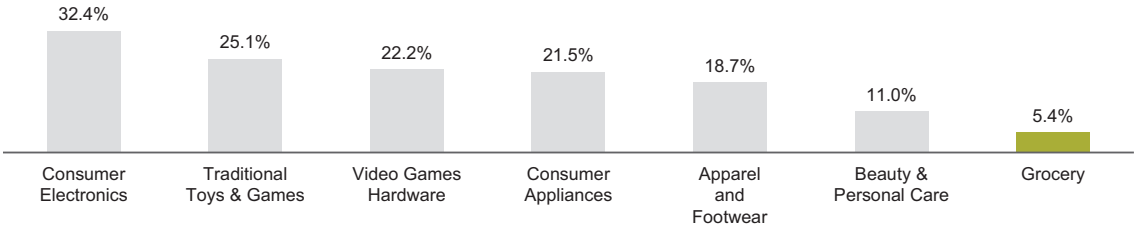
Channel	2011-16 CAGR	2016-21 CAGR
Total	**1.9%**	**2.9%**
Online	12.4%	8.5%
Offline	1.5%	2.5%

Source: IGD

According to Euromonitor, the U.K. has among the highest online retail percentages globally with 15% of retail sales made online during 2016 (as measured by sales value) as compared to 10% in North America and 8% in Western Europe. Between 2011 and 2016, online retail sales in the U.K. have increased at a CAGR of 14.6% leading to an increase in U.K. retail sales penetration from 8% in 2011 to 15% in 2016.

While grocery is the largest segment in retail, it remains an underpenetrated category online relative to other retail sectors offering significant potential for growth (Euromonitor). In the U.K., only 5% of grocery sales were made online in 2016 (IGD).

U.K. Retail Categories Online Penetration (2016)



Source: Euromonitor, IGD for Grocery

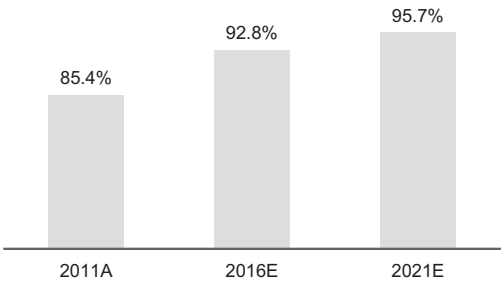
The shift from traditional formats to online reflects the increasing appetite for online shopping, which is currently growing from a relatively low base.

The strong growth in online grocery sales is supported by multiple drivers:

- Higher internet penetration, driven by increased usage of mobile and faster connections
- Technological advances significantly improving the online proposition for customers (such as better interfaces, convenient digital wallets and payment systems)
- Improving delivery options as density economics improve
- Improving customer proposition as technology and competition increases. For example, there is often greater availability of products online compared to in-store (Ocado ranges approximately 50,000 SKUs on average in FYE 2016, higher than typical SKU levels for store-based retailers)
- Supportive demographic trends:
  - Increasing population of tech-aware customers with a higher propensity to buy online
  - Smaller size of households leading to increased frequency of purchase

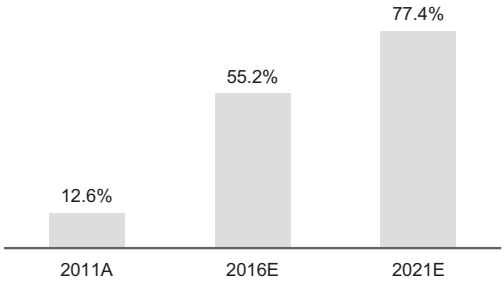
According to Euromonitor, mobile internet retailing reached 51% of overall internet retailing in the U.K. during 2016, up from 40% in 2015, as consumers increasingly use smartphones.

% of Population using internet in the U.K.



Source: Euromonitor

% of Households possessing a smartphone in the U.K.

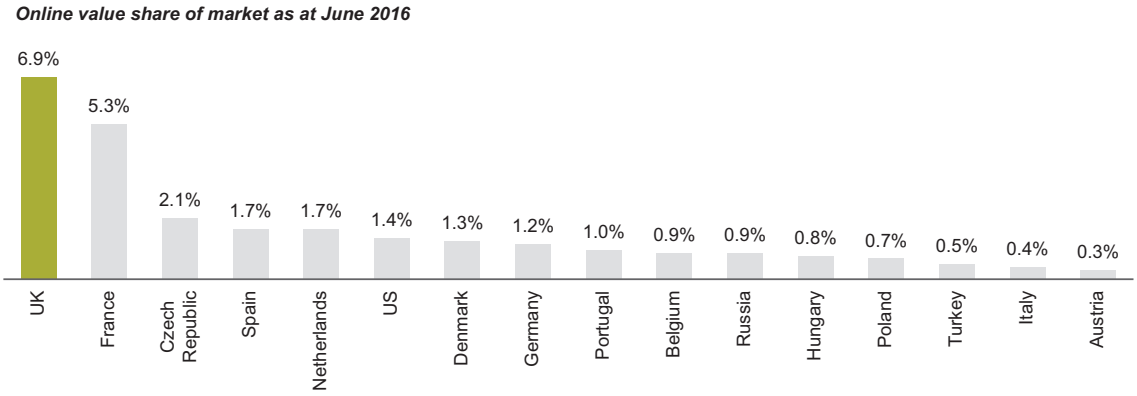


Source: Euromonitor

International Online Grocery Trends

Grocery retail internationally has undergone a number of changes, and the adoption of digital technologies is expected to play an increasingly important role. This adoption offers significant opportunities on a global scale both for traditional grocery retailers and for companies like Ocado who provide online grocery fulfilment solutions.

Online Grocery[3] Penetration



Source: Kantar Worldpanel The Future of E-commerce in FMCG Report September 2016 (Selected countries in North America and Europe)

The U.K. has higher online grocery penetration than most other regions, although developed regions are expected to continue to focus on developing the online channel and developing regions are also likely to witness strong growth in online as the shift to modern grocery retail continues. According to Euromonitor, online grocery retail[4] is expected to grow at a CAGR (2016-21) of 10% in Western Europe and the US and 14% in Eastern Europe.

As retailers begin shifting towards online grocery, they will need to decide how to scale their online operations: whether to do so in-house or outsourcing software, automation and integration requirements, and whether to use a manual pick store and warehouse-based model, an automated central fulfilment models or a combination of the two.

Ocado believes that it is uniquely positioned to take advantage of sales growth in the global online grocery market, offering potential retail partners a fast, flexible and cost efficient way of operating online with its fully integrated end-to-end software and automated mechanical handling equipment ("MHE") solutions which are able to support both the manual and automated models described above.

Competitive Landscape

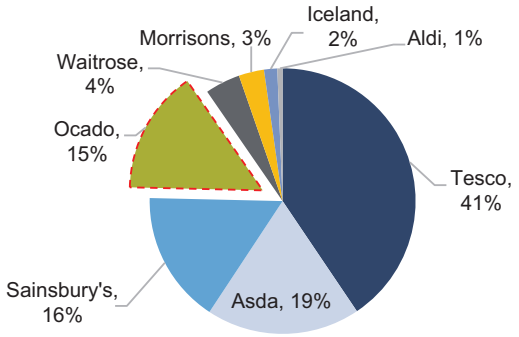
U.K. grocery

With nationwide store portfolios, the three largest U.K. grocery retailers — Tesco, Sainsbury and Asda have also established their presence in the online segment. According to IGD, Tesco has a market share of 41% by sales value. Asda has a 19% share and Sainsbury has a 16% share. Ocado is the fourth-largest with a 15% market share, and is growing faster than its competitors.

(3) E-Commerce in FMCG as per Kantar Worldpanel
(4) The category of Food and Drink Internet Retailing as per Euromonitor

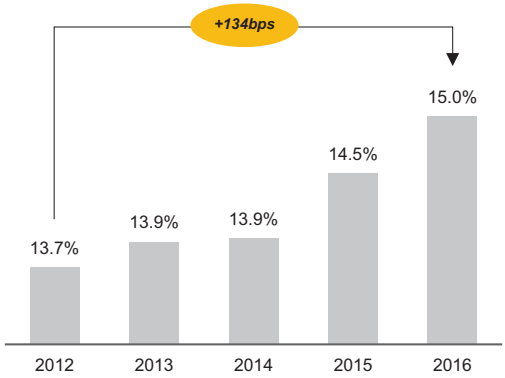
Ocado is a key operator in the U.K. online grocery retail landscape and offers its services to a wide demography of customers with the delivery area for Ocado.com covering over 70% of U.K. households. Its strong success is supported by its compelling proposition to customers in terms of range, price, offering, freshness, customer service and consumer friendly interfaces. Ocado is one of the world's leading dedicated online grocery retailers by revenue.

U.K. Online Grocery Retail Market Share[5] (2016)



Source: IGD

Ocado U.K. Online Grocery Market Share Evolution (%)



Source: IGD

Other significant operators in the U.K. online grocery retail market include Waitrose and Morrisons. Although a late entrant in the category, Morrisons has been growing its online sales, principally aided by its partnership with Ocado (described in more detail at *Management's Discussion and Analysis of Financial Condition and Results of Operations—Principal factors affecting results of operations—Relationship with Morrisons*). Smaller operators like Iceland have also developed their online capabilities, but retain small market shares.

In June 2016, Amazon launched 'Amazon Fresh' in the U.K. With a wide product offering and short delivery times, it could potentially offer competition to the incumbents going forward, but Ocado currently believes it has had little impact on its results and operations.

Other than Ocado, the U.K. online grocery retailers fulfil orders using either store pick (customer orders being manually picked from existing nearby retail stores), dark stores (dedicated quasi-warehouses with efficient merchandising, not open to customers, from which customer orders are manually picked), a hybrid of the two (stores with some dedicated non-public space for certain categories) or a combination of all three. Some dark stores use a limited amount of automation but the processes are predominantly manual and the facilities typically take deliveries from the retailers' regional distribution centres.

In contrast, Ocado has consistently employed a centralised fulfilment model, using large, highly automated warehouses ("customer fulfilment centres"), which receive 90% of their goods directly from manufacturers. Ocado believes this to be a more effective and sustainable model in terms of productivity, fulfilment accuracy, customer service and long-term profitability.

Online grocery fulfilment solutions

Ocado believes that there is no direct competitor providing end-to-end online grocery fulfilment solutions which combine fully integrated software and MHE. There is a range of providers of elements equivalent to some of Ocado's solutions. However, any retailer or competitor solutions provider seeking to assemble a platform equivalent to Ocado's would need to invest time and capital in the integration of the software and MHE from multiple suppliers — something which Ocado refined since its inception but has now moved to entirely proprietary software and MHE solutions.

(5) Market shares calculated on the basis of aggregate online sales of Tesco, Asda, Sainsbury's, Ocado, Waitrose, Morrisons, Iceland and Aldi as estimated by IGD.

There are multiple operators offering e-commerce business solutions to grocery retailers. The low cost end is occupied by operators like Instacart, Digital Foodie, Unata and MyWebGrocer, while the resource-intensive, high customisation space includes operators like IBM WebSphere, SAP Hybris and ORACLE Commerce. Suppliers of MHE to the grocery industry include TGW and Witron.

BUSINESS

Overview

Ocado is one of the world's leading dedicated online grocers. Headquartered in Hatfield, U.K., we were founded in 2000, have been listed on the London Stock Exchange since July 2010 and are a member of the FTSE 250 index with a market capitalisation of £1.73 billion as at 9 June 2017. Our objective is to provide, at a low operating cost, our customers with the best proposition in online grocery shopping. We have developed a leading end-to-end operating solution for online grocery retail based on proprietary technology and intellectual property for operating our own retail business, which we believe can also be deployed to provide platform solutions to our commercial partners. Grocery is the largest of all retail segments and is increasingly moving online supported by the rapid growth of shopping on mobile devices.

Online is forecast to be the fastest-growing channel in U.K. grocery over the next five years (source: IGD). We believe that consumers are increasingly seeking an online grocery shopping proposition that allows them to save time and effort while still retaining the wide product range, high quality and low cost that they expect from a store-based supermarket. We believe we are well-placed to benefit from the growing demand for ordering groceries online. As one of the world's leading dedicated online grocers, we believe we are in a strong position in the U.K. grocery market to grow our retail customer base and take market share from our store-based competitors.

In FYE 2016, we sold approximately 50,000 SKUs on average at Ocado.com and have expanded our offering into general merchandise categories, including through our dedicated destination sites (focusing on specialised product ranges), which separately sell more than 22,000 SKUs. Our Ocado.com range comprises branded products, Waitrose own-brand products and Ocado own-brand products (sourced directly from various manufacturers). In accordance with the terms of our sourcing agreement with Waitrose (the "Sourcing Agreement") approximately 80% of our third party branded grocery sales are sourced through the Sourcing Agreement. We have a wide range of branded products, and while we have some overlap with Tesco and Waitrose, 20% of our sales for FYE 2016 were generated by branded products sold only at Ocado. Our dedicated destination sites focus on specialist product ranges. These destination sites are our pet store, Fetch.co.uk, our kitchen and dining store, Sizzle.co.uk, and our new premium beauty offering, Fabled.com.

In FYE 2016, we had approximately 580,000 active retail customers (FYE 2015: 509,000) (defined as customers who shopped at Ocado at least once in the last 12 weeks) and we processed an average of approximately 230,000 orders per week for Ocado customers (FYE 2015: 195,000). Due to our dedicated online retail model, unlike the major retailers, Ocado.com does not experience any cannibalisation of other channels such as physical stores with the conversion of new retail customers. As of the end of FYE 2016, our delivery area for Ocado.com covered over 70% of U.K. households. Our Ocado.com delivery catchment has not changed significantly over the last five years, and so our demand has grown primarily from new and existing customers within our existing catchments. In FYE 2016, 99.0% of items were delivered exactly as ordered and 94.9% of deliveries were on time or early in a one hour time slot.

In our retail business, we offer delivery of grocery products, as well as general merchandise, centrally picked from one of our three state-of-the-art, highly automated warehouses (the customer fulfilment centres, or "CFCs") or, in the case of certain of our general merchandise, our general merchandise distribution centre ("GMDC"), all in the U.K. We expect our third CFC (in Andover), which utilises our new proprietary fulfilment solution, to be more efficient to operate when at scale than our existing facilities. We expect our fourth CFC, which will utilise the same technology, to be even more efficient. We plan to open our fourth CFC in Erith, South East London, and a second GMDC nearby in FYE 2018.

Underpinning our retail customer offering are our bespoke software and equipment systems that have been mainly developed in-house. In addition to utilising these systems ourselves, we also offer them to other retailers as a service offering. We are seeking to commercialise this technology in our Solutions Business by offering these systems as the Ocado Smart Platform ("OSP") product, or components thereof, as required. We believe our solutions partners will benefit from our years of innovation originating from our own retail business through solutions that offer what we believe to be a better customer offer and a more cost-efficient way of operating online.

Morrisons, our first solutions partner, has seen strong growth in their online business since we launched our arrangement with them in 2014 by providing them with access to 50% of the capacity of our Dordon CFC. We will also provide Morrisons with 30% of the capacity of our fourth CFC in Erith when it opens in FYE 2018. We have also licensed to Morrisons the software necessary to fulfil online orders fulfilled from their own retail stores, alongside those online orders fulfilled by us for them from our CFCs and provide their customers with general merchandise products fulfilled and delivered from our existing range.

We have generated significant year-on-year growth in Gross Sales (Retail), which measures our retail sales, and Gross Sales (Group), which measures retail sales and revenue from our Solutions Business. We generated Gross Sales (Retail) of £1,267.4 million in FYE 2016, an increase of 13.6% as compared to FYE 2015 and Gross Sales (Group) of £1,386.7 million in FYE 2016, an increase of 15.1% as compared to FYE 2015. We have also achieved positive and growing Adjusted EBITDA since FYE 2012 and generated £76.9 million of Adjusted EBITDA in FYE 2016 (FYE 2015: £75.8 million; FYE 2014: £64.7 million). We believe that as our model has a relatively lean cost base, which we expect to further improve through realisation of further operating leverage, we have better future Adjusted EBITDA margin potential than our store-based competitors.

Our principal activities are grocery retailing in the U.K. and the development and monetisation of intellectual property and technology used for the online retailing, logistics and distribution of grocery and consumer goods, currently derived almost entirely from the U.K. The principal activities of the Group are currently managed as one segment.

Our Strengths

1. ***Ideally positioned to benefit from continuing channel shift of grocery, the largest retail segment, to online***

In the U.K., there has been a shift in grocery away from physical stores to online purchasing, as demographic trends, greater availability of products online, population density, improving service proposition and technological advances in applications and customer interfaces have driven penetration in the online grocery industry, as well as in e-commerce generally.

Grocery is the largest of all retail segments, representing over 50% of retail sales globally and approximately 50% of retail sales in the U.K. The U.K. grocery market is estimated to be worth approximately £180 billion in sales in 2016 and forecast to increase to approximately £208 billion by 2021 (*source*: IGD). Over the same period, it is estimated that the U.K. online grocery segment will grow from £9.7 billion to £14.6 billion, a 51% increase from 2016, and account for 18% of the grocery industry growth. IGD forecasts that the online grocery market will grow at 8.5% CAGR (2016-21) compared with 2.9% for grocery as a whole. Similarly, Kantar Worldpanel forecasts that global grocery e-commerce will grow to 9% of the grocery market and be worth $150 billion by 2025.

As one of the world's leading dedicated online grocers, we believe that we are well positioned to benefit from this growth and, with sufficient potential capacity in place to increase revenues by an estimated £350 million without significant further investment, our strategy is to capture market share through what we believe is a superior retail customer offering, including highly attractive service, wider and fresher ranges and competitive prices. Currently, our Hatfield and Dordon CFCs are operating at near peak utilisation while our Andover CFC is operating at very low utilisation. We plan to ramp up our Andover CFC in line with future growth.

We believe that commercialising our technology through our Solutions Business proposition will position us to capitalise on the grocery channel shift to online on a global level. As competition increases, improved technology and services will be required to further enhance the online grocery shopping experience. We believe our Solutions Business proposition is well placed to support future demand for online grocery capabilities. While demand is expected to accelerate, significant barriers to entry exist in the online grocery segment relating to scale, developing a customer base, supplier contracts and relationships, brand identity and the development of the requisite technology and delivery capabilities. These significant barriers to entry help position us to capitalise on future growth in this industry.

2. *Superior customer offering with leading range, service and price proposition driving growth*

Brands and Product Range

We believe our extensive product range of approximately 50,000 SKUs (FYE 2016) on average at Ocado.com is the most extensive grocery offering by a U.K. supermarket. We sell Ocado own-label, Waitrose own-label and third party-branded products via Ocado.com. We also focus on product freshness, which is facilitated by the strict management of stock levels and rotation, through real-time visibility over customer ordering and due to the majority of suppliers delivering direct to the CFC (rather than via regional distribution centres). This ensures our customers receive products which we believe to be fresher than customers could typically buy in a supermarket.

We have a Sourcing Agreement with Waitrose that gives us access to Waitrose own-label and third party-branded products on the same terms (including cost price) as Waitrose sources them, as well as the benefit of our combined scale. This continues to provide great opportunities and advantages for our customers.

We also benefit from the premium and quality associations of the Waitrose brand. The arrangement allows us to choose to participate in certain promotional activities arranged by Waitrose with suppliers (although we and Waitrose are free to arrange our own promotional activities as well).

Price

We aim to price competitively in order to offer an attractive value for money proposition. We seek to match our prices against the market leader, Tesco. This started in 2008 with *Tesco Price Match*, matching prices of thousands of branded products. In 2012 this was expanded with the introduction of *Low Price Promise*, which compares the cost of each customer's shopping basket to equivalent branded products and comparable private label products to Tesco.com (adjusted where necessary for different pack sizes), and provides a voucher if we are not cheaper. In FYE 2016, product sales covered by the basket price matching accounted for approximately 40% of sales. In FYE 2016, Information from our price match program indicated that Ocado customers had average savings of approximately 2.5% compared to Tesco. We believe these price commitment schemes have helped improve price perception and transparency for customers. We also continue to develop our own-brand range, which is tiered to the mainstream own-label brands of our competitors.

Customer service

We believe the functionality of our Webshops and mobile applications, product availability, order accuracy as well as fast and convenient delivery service are fundamental to our customer service proposition. Customers can place an order on our Webshop (which is mobile responsive) or our Ocado mobile/tablet applications (for Apple, Android and Kindle devices), which offer a broad range of functionality and targeted product recommendations, which we believe enhance the customer experience. We aim to provide our customers with the convenience and functionality of the latest mobile technology. We believe we were the first grocery retailer in the world to produce a global, fully transactable retail mobile application for the iPhone. We believe our efficient and user-friendly customer interfaces, and high levels of customer service (demonstrated by our 95% punctuality and 99% order accuracy recorded in FYE 2016) contribute to our high levels of customer retention. We have seen that active customers tend to remain loyal, shopping with us regularly over significant periods of time.

3. *Leading Brand with growing and loyal customer base*

Founded in 2000, we pride ourselves on having developed and sustained a market-leading customer offering in dedicated online grocery retail, as shown by our approximately 580,000 active retail customers, £1,267.4 million in FYE 2016 Gross Sales (Retail) and the recent consumer and industry awards we have received, including *Supermarket of the Year* for the second consecutive year at *The Grocer Gold Awards 2016*, *Best Online Retailer* at the *Best of Organic Market Awards 2016* and *Best Online Retailer* at the *Loved By Parents Awards 2016*.

Even with only limited increases in marketing costs, engagement with our existing customer base has grown from 2012 to 2016:

- The number of active retail customers has increased at a 13.1% CAGR over the period, from approximately 355,000 in 2012 to 580,000 in 2016;
- Average order size and order frequency have remained relatively consistent over the same period, with an order size in FYE 2016 of £108.10 per order compared to £112.13 per order in FYE 2012 and order frequency of 10.9 visits per annum in FYE 2016 compared to 10.8 in 2012; and
- Over the same period marketing spend as a percentage of Gross Sales (Retail) has decreased from 1.7% in 2012 to 1.0% in 2016.

Our Webshops offer a smart and personalised user interface to enhance customer experience and engagement, where customers can create or edit an order. All product lines are searchable (with our Webshops displaying photographs of almost all products) and when a customer searches for a type of product, particular items ordered before by that customer are displayed higher in the search hierarchy, along with products on promotion and other personalised recommendations. In FYE 2016 we averaged approximately 230,000 orders per week (258,000 in P5 2017) and customers purchased an average of approximately 50 products per order.

4. Our advanced technology and logistics solutions create competitive advantages

We continually implement additions and improvements to our IT systems and highly automated, often purpose-built, machinery. We believe that, as our IT systems and machinery become more efficient and sophisticated, our competitive advantages increase. The majority of our current IT systems are bespoke (there often being no suitable alternatives available commercially) and have predominantly been developed in-house by our IT team. While we use third party MHE at our Hatfield and Dordon CFCs, our Andover CFC and forthcoming Erith CFC will utilise our proprietary MHE that we have developed and that we believe will provide further efficiencies and competitive advantages. All our CFCs operate using proprietary software.

Our first patents were granted in FYE 2016 and by the end of that year, we had filed patent applications covering 58 separate innovations. Of the patent applications filed so far, the majority relate to our physical infrastructure solution. Our team of approximately 1,000 IT staff in the U.K. and across four technology centres in Poland, Bulgaria and Spain maintain and develop a broad range of proprietary technology for us, focusing on automation and robotics, the Internet of things, data science and artificial intelligence, big data and the cloud, as well as web and app development. Our software engineering teams support our various software systems and applications, including the replatforming of our Webshops, backend systems, slot booking and route setup, store- picking and last mile delivery.

Our state-of-the-art, highly automated CFCs currently in operation are capable of processing approximately 320,000 orders per week on behalf of Ocado.com (with further orders for our destination websites Fetch, Sizzle and Fabled processed through our GMDC) once Andover is fully utilised and cover over 70% of U.K. households. These items are delivered to customers either directly from the CFCs or via the Spokes (the trans-shipment points for deliveries not made directly from the CFC). Our CFC capacity is described in terms of “effective” capacity, which we present in terms of Ocado equivalent order capacity. We believe that the three operational CFCs will have the effective capacity to process approximately 420,000 orders per week once fully ramped up (95,000 of which are allocated to Morrisons at our Dordon CFC). Although currently at the start of the ramp up process, we believe our Andover CFC will ultimately have an effective capacity to process 65,000 orders per week and our fourth CFC in Erith will add an additional effective capacity to process approximately 200,000 orders per week (approximately 60,000 of which will be allocated to Morrisons). We believe that the capacity of our CFCs is sufficient for our current orders and to accommodate growth in line with our current expectations.

From FYE 2015 to FYE 2016 we have increased the efficiency of our mature CFCs by 3.2% (FYE 2016: 160 UPH; FYE 2015: 155 UPH) and the efficiency of our delivery operations via our Spoke network and routing efficiency (FYE 2016: 176 DPV; FYE 2015: 166 DPV), while maintaining 0.7% average waste level.

Additionally, we believe the experience we have developed in operating one of the world's leading dedicated online grocery supermarkets and as service provider to Morrisons provides us with the know-how and expertise to assist our future partners in adopting and efficiently scaling their online grocery businesses. Furthermore, the growth of our retail business in the U.K. enables further investment into improving our technology for the benefit of our current and future corporate partners.

We believe that many of the structural advantages of our retail business model can be realised by our future corporate partners through the implementation of the products sold by our Solutions Business.

5. Proven execution track record of operational excellence with robust historical financial performance and operating metrics

We have developed an entire end-to-end solution to operate online in the grocery market, vertically integrated across software and physical equipment solutions. We are the only U.K. online supermarket that services all of its online orders from dedicated warehouses where all the picking and packing of products is performed centrally and we cover over 70% of U.K. households with our 3 CFCs, 1 GMDC and 17 Spokes. We believe that the automation of equivalent store operations in the CFCs, the aggregation of stock and demand in centralised and automated distribution centres (allowing Ocado to take direct deliveries to the CFCs from suppliers, cutting out the majority of costs of regional distribution centres), real-time control over stock, not having to rent or purchase sites in expensive locations, reduced staff costs and lower energy costs (by holding chilled products in a single large refrigerated chamber per CFC rather than in open fridges in a heated store), all provide clear cost and service benefits to us.

We continuously seek to lower the cost of investment required for online grocery activities in order to support growth in our own retail business as well as to make our offering attractive to potential solutions partners. Our MHE is modular (can be built to different sizes), scalable (can be increased in size within a site), and we expect will be faster to deploy in the future (shorter build and commissioning lead times), allowing for reduced up-front capital commitment.

We have developed what we believe to be leading mobile applications for our customers as they make more of their purchases from mobile devices and we also continue to enhance our delivery capabilities. Approximately 55% of Ocado orders were placed on a mobile device in FYE 2016 (FYE 2015: 50%). In FYE 2016, approximately 99.0% of items ordered were delivered exactly as ordered (FYE 2015: 99.3%), facilitated by our technology that, amongst other things, prevents a customer from ordering a product that is anticipated to be out of stock when the order is picked in the CFC. Furthermore, in FYE 2016, 94.9% of all deliveries were on time or early (FYE 2015: 95.3%). Timely delivery within one-hour time slots seven days a week, with same day delivery service within certain catchment areas, and with direct delivery to the customer's kitchen make for an attractive customer experience and provide us with a competitive advantage.

We believe our business model has a number of material scale and structural advantages compared to the models operated by our competitors (all of which have store networks and regional distribution centres and predominantly provide their online services out of those stores), including the following:

- the ability to stock a greater range of products (we sold approximately 50,000 SKUs on average on Ocado.com in FYE 2016, including a "long-tail" of slower-moving products which a traditional supermarket might struggle to stock efficiently);
- improved product freshness for customers due to faster stock turn and reduced stockholding levels, including product life commitments which in many cases promise two thirds of the selling life to our customers, while nevertheless maintaining reduced levels of wastage (only 0.7% of Gross Sales (Retail) in each of FYE 2016 and FYE 2015); and
- improved product availability for customers as our centralised inventory management means that stock promised to online customers is not unavailable at the time of order fulfilment as a result of unpredictable demand from store customers. In addition, we have high levels of accuracy of stock pick by utilising scanning technology and proprietary user interfaces for the person picking. These both contribute to higher order accuracy.

These advantages have resulted in stronger sales growth and a higher revenue per employee, in each case as compared to our traditional supermarket competitors.

We have generated strong revenue and Adjusted EBITDA growth over each of the last three years. Our strong track record has been delivered by our experienced management team, and we have demonstrated the success of our strategy of organic growth of our retail business, which, coupled with the implementation of our Solutions Business (including our recent agreement with our first international corporate partner) , we believe will enable us to utilise our proprietary software and MHE developed through our years of online retail grocery experience to assist our solutions partners in efficiently adopting and scaling their online grocery retail businesses.

Our objective is to create a virtuous cycle between growth, innovation, efficiency and investment. This is enabled by our end-to-end solution, utilising proprietary technology, and the elimination of significant costs incurred by store-based retailers. The resultant cost benefits and cashflow enable us to reinvest into our business with the objective of driving growth. The virtuous cycle drives both our retail business and Solutions Business. Any improvements we make to our retail operations can be implemented in the service provided to Morrisons and through our Solutions Business technology offered to future corporate partners. Thus the investment we make in innovation improves our proposition, both for retail and corporate partners. From FYE 2012 to FYE 2016 our Gross Sales (Group) and Adjusted EBITDA have had a compound annual growth rate of 17% and 21%, respectively.

In general, dedicated online retailers tend to operate at lower margins than multi-channel retailers in the same sub-sector. Contrary to trends in other sub-sectors, we believe the strength of our business model and operating efficiency has led to higher average margins than the typical multi-channel retail grocery sector.

We believe we have attractive investment opportunities to deploy the funds raised for general corporate purposes from this Offering (see "*Use of Proceeds*"). As one example, we estimate that a £220 million investment in building a new CFC (which is our estimate of the total capital cost of our Erith CFC together with the capital costs of the necessary vehicles and technology hardware less the working capital savings from the additional sales volumes) would have a return on capital invested[(1)] in excess of 50%, assuming our FYE 2016 operating margin[(2)] of 10.1% and the new CFC operating at full utilisation and generating annual Revenue (Retail) of £1,200 million. Management estimates that identified CFC and delivery efficiency savings could result in an operating margin in respect of such a future CFC of 11.6%. This estimated rate of return and potential operating margin are estimates and actual results may differ. There is no guarantee such returns or enhanced margins will be achieved or that the Group will have other investment opportunities providing similar expected returns. Constructing a CFC and such CFC reaching full utilisation takes a number of years and full utilisation assumes growth in customer orders, which may be affected by, amongst other things, economic conditions. The return on capital invested and enhanced operating margin are forward looking statements (see "*Forward Looking Statements*").

6. Seasoned and committed management team with supportive shareholder base

We have an experienced management team led by our Chief Executive Officer Tim Steiner, who founded the Group in 2000. Our Chief Financial Officer, Duncan Tatton-Brown, joined us in 2012 and has over 20 years of retail experience including as Group Finance Director of Kingfisher plc. Our Non-Executive Chairman, Lord Rose, who has worked in retail for over 40 years, was appointed to the Board of Directors in 2013, and previously held Chief Executive Officer positions at Argos plc, Booker plc, Arcadia Group plc and Marks and Spencer plc. Lord Rose was knighted in 2008 for services to the retail industry and corporate social responsibility, and granted a life peerage in August 2014.

Our Executive Directors have significant beneficial shareholdings in the Group with a combined holding of 5.2% as at 30 April 2017. We believe that the collective industry knowledge and leadership capabilities of our senior management team will enable us to continue to successfully execute our strategy.

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(1) We calculate return on capital invested as the operating contribution (which is equal to operating margin multiplied by revenue achieved) from the CFC for one year divided by total capital invested.

(2) Operating margin is equal to the sum of Revenue (Retail) and supplier income less costs of sales, distribution costs (other than depreciation and amortisation), and certain administration and non-voucher marketing costs (which are within administration costs), divided by Revenue (Retail).

Our Strategy

We strive for new and improved ways to deliver what we believe to be the world's most advanced end-to-end online grocery shopping and delivery solutions. Our strategy is designed to deliver shareholder value through our strategic objectives of driving growth and maximising efficiency by utilising proprietary knowledge.

Driving growth: continually enhancing the value of our proposition for our retail customers

We focus on improving our customer offering in order to retain existing customers and encourage them to make greater use of the Ocado service, as well as attracting new customers. For our retail customers, this is centred on the three core pillars of our proposition to customers — product range, price and customer service.

Driving growth: We intend to grow revenues through selectively adding capacity to meet growing demand within our existing geographic footprint

We currently deliver to over 70% of the households in the U.K. As the U.K. population grows and increasing numbers of consumers turn to online grocery shopping, we anticipate demand for our services to grow further.

Therefore, our strategy is to carefully expand our CFC capacity through investments in Andover and Erith, which are designed to be scalable, allowing us to increase capacity in stages to meet growing demand while maintaining high levels of utilisation. As demand grows, we also expect to increase the number of Spokes helping us to maintain our existing highly-efficient delivery operations.

Driving growth: We intend to enhance our product range at Ocado.com and our destination sites

We intend to continue optimising the range of SKUs sold by Ocado.com (FYE 2016: approximately 50,000 on average; FYE 2015: approximately 47,000 on average), including a wider range of slower selling and specialist SKUs which a traditional supermarket might struggle to stock efficiently. We also plan to further improve the range of Ocado own-label products, which were 10.1% of Gross Sales (Retail) in FYE 2016, representing an increase of 10.9% as compared to FYE 2015.

We also intend to expand our offering of general merchandise offered through Ocado.com, as well as our dedicated destination sites which focus on specialist product ranges, such as our pet store, Fetch, our kitchen and dining store, Sizzle, and our new premium beauty offering, Fabled. Hosting these dedicated destination sites drives the range of products made available to us by niche suppliers and brands, allowing us to extend our range beyond conventional supermarkets. We are able to use our knowledge of our customer base to improve our product offering by focusing on products most desired by our customers.

Driving growth: We seek to provide best-in-class online grocery proposition, with excellent customer service and value for money

We focus on offering value for money to customers and leveraging the increased appeal of online grocery shopping to an expanding demographic of the U.K. population. This includes the use of loyalty programmes such as the *Ocado Smart Pass* service (which is designed to reduce average delivery charges to the customer and through which over half of all of our retail sales are conducted), and price initiatives such as *Tesco Price Match* and *Low Price Promise*. The expansion of the Ocado own-label range and our dedicated specialist product sites is intended to allow us to increase the range of products at affordable price points. We believe that we are able to compete on price with supermarkets due to our efficient operations and our proprietary technology, both of which continue to improve. This is demonstrated by our EBITDA margins, which we believe are superior to the "Big 4" supermarkets, Tesco, Asda, Sainsbury's and Morrisons.

We focus on improving every element of the retail customer experience through the quality of our service and our user interfaces, and strive to improve our user interfaces continuously with the goal of ensuring an increasingly personalised and easy-to-use shopping experience, including the onward development of our mobile applications. Our user interfaces are designed to allow our customers to

execute their orders easily, for example through predictive suggestions (by proposing personalised recommendations or frequently-purchased item pairs) or allowing mobile app users to place orders when offline, which are then included in the final order sent for purchasing. Consequently, customers purchase an average of approximately 50 items per order, demonstrating the convenience of our offering.

We drive customer retention by providing excellent customer service, demonstrated by our high levels of punctuality (with approximately 95% of deliveries occurring within the allocated 60 minute time slot) and accuracy (with approximately 99% of orders arriving exactly as ordered). Combined with our product offering, we believe that our service levels help to encourage our active customers to become routine customers (shopping more than four times in the last twelve weeks), helping to drive our overall growth.

Driving growth: We seek to license our proprietary intellectual property to partners in order to monetize our investment

We are seeking to contract to provide our proprietary software and technology to third parties. We have expertise in integrating systems to apply to grocery distribution, which can be used by other retailers' online businesses (as we have done with Morrisons). By careful delivery of these arrangements, we will be able to monetize our investment while also maintaining our competitive advantage in the U.K. grocery retail space.

Maximising efficiency: We continue to develop our operational and capital efficiency to enable us to compete aggressively at attractive margins

Our strategy is to deliver growth efficiently, by leveraging our operational expertise and systems to run the business profitably, and enabling us to grow utilising capital carefully. This may include increasing use of robotics and/or automated guided vehicles to lower the cost of our operations.

Maximising efficiency: We apply our expertise in online grocery and our unique systems to drive operational excellence

Without compromising our customer offering or value for money proposition, we strive to increase the efficiency and effectiveness of our operations from our Webshops, mobile applications and the CFCs to customer delivery by continuing to improve our technology, systems and training.

We are focused on increasing CFC productivity (measured as UPH) by improving our technology mix through upgrading the existing equipment at the CFCs and increasing automation of the picking process through the use of our proprietary MHE and continuing the development of more intelligent IT algorithms and code to increase the efficiency of existing CFC operations.

Similarly, delivery productivity is measured by average deliveries per van per week ("DPV per week"). We are focused on increasing delivery productivity through increased customer density (thereby reducing time spent driving between customers), and continuing the development of more intelligent IT algorithms and code to allow efficient allocation of driver resources and optimised route planning.

Maximising efficiency: We seek to improve our capital efficiency to reduce investment required for growth

Our strategy is to improve our capital efficiency, seeking to continuously lower the cost of investment required for online grocery activities in order to support growth in our own retail business, as well those of our solutions partners. We have implemented our new proprietary MHE at our Andover CFC and continue to do so there and at our forthcoming Erith CFC. Our proprietary technology solution is modular (can be built to different sizes) and scalable (can be increased in size within a site) and we expect future iterations to be faster to deploy (shorter build and commissioning lead times), all of which allow for reduced up-front capital commitment.

We can also offer our proprietary technology to partners (as we have done with Morrisons) and to overseas CFC customers (as we have done with a European regional retailer), and also provide them

with the software necessary to fulfil online orders from their own retail stores or dedicated manual pick warehouses. Morrisons will benefit from the use of our proprietary MHE at our forthcoming Erith CFC.

Our Retail Business

Customers

For FYE 2016, we estimate that we had a delivery footprint (measured as households in Ocado's delivery footprint as a percentage of households in the U.K.) of over 70%. We deliver as far north as York and as far west as Cardiff. We believe our sales in areas of high penetration will continue to grow, notwithstanding our levels of penetration, due, amongst other things, to our customer proposition, the reinforcing effect of van presence, word-of-mouth and existing customers shopping more frequently. To date, there has been no evidence of areas reaching a ceiling on penetration as we have continued to grow in all of our postcode sectors.

We have expanded from the South East of England to three CFCs and 17 Spokes (eight servicing Ocado, one servicing Morrisons and eight servicing both Ocado and Morrisons) currently in operation, and we plan to open our fourth CFC in Erith, South East London during FYE 2018. These Spokes have grown successfully and demonstrate strong demand outside the South East of England.

In FYE 2016, a customer's average order was £108.10 (FYE 2015: £111.20). New customers typically have an average order size that is below the average for all customers, increasing to the average order size over a number of orders. In addition, average order sizes have been affected by price deflation and a general trend towards more frequent, smaller purchases.

We source many of our products through the sourcing agreement with Waitrose, including many Waitrose own-label products. Our customer relationships are our own and we market to our customers using our own brand name. Waitrose has no access to our customer information. There is likely a large crossover of customers who shop with both Ocado and Waitrose; however, there is likely a large crossover with other supermarket operators as well.

We pride ourselves on our customer service and believe that we have achieved high customer satisfaction levels. This is supported by the numerous consumer and industry awards we have received, including *Best Supermarket of the Year* for the second consecutive year at *The Grocer Gold Awards 2016*, *Best Online Retailer* at the *Best of Organic Market Awards 2016* and *Best Online Retailer* at the *Loved By Parents Awards 2016*.

Webshops and Mobile Applications

On logging onto our Webshops, customers can create or edit an order. All product lines are searchable (with our Webshops displaying photographs of almost all products) and on searching for a type of product, particular items that the customer has ordered before are displayed higher in the search hierarchy, as are products on promotion.

We have sought to make a number of features on our Webshops attractive and helpful for customers to use. These features include:

- for almost every product, displaying back-of-packet details such as ingredients and allergy information and, where relevant, a use-by date and nutritional information;
- "*Your instant shop*" is a list of grocery items generated automatically by our Webshops which a customer (with a shopping history) can order with one click or edit before ordering. Instant orders are an algorithm- generated prediction based on the customer's historical ordering patterns;
- displaying all items that a customer has ordered before that are currently on promotion;
- "*Did you forget*" prompts customers, before checking out, to add products which they may have neglected to order. These prompts are based on many of the same criteria on which instant shops are based, in particular, referring to a customer's historical ordering patterns to anticipate which items a customer may be running or have run out of;

- "*Recommended to you*" are recommendations to customers based on (i) items ordered by other customers that regularly order similar items to them or (ii) which are connected to items that they have ordered before or which are in their current basket;
- allowing customers to review and rate products and displaying those reviews and ratings to other customers in the product information;
- providing recipe suggestions for particular products, along with the ability to order all of the other ingredients required for that recipe with a single click;
- providing customers with the option to purchase significantly reduced SKUs at the end of the checkout process to encourage "flash sales";
- offering free gifts to customers who place large orders; and
- an extensive range of over 60 "shop-in-shops" which allow customers to quickly search through themed product offerings and select niche items from a variety of regions or suppliers which may not be found in traditional supermarkets.

Many of these features are also available through our mobile applications for iPhone, iPad, Apple watch, Android phone and Amazon Kindle). Approximately 55% of Ocado orders were placed on a mobile device in FYE 2016 (FYE 2015: 50%).

Delivery options

Next day delivery service is available from all of our distribution centres and many of our distribution centres can provide customers with same day delivery within certain catchment areas. Customers may place orders for delivery up to 21 days in advance. All deliveries are made in one-hour time slots chosen by the customer: time slots are offered starting on the hour and on the half-hour. Deliveries start at 5.30 a.m. and continue until 11.30 p.m. (that is, for 17 and a half hours per day).

We generally charge customers between £0 and £6.99 for deliveries, and customers must place a minimum order value of £40. In addition to placing orders on an ad hoc basis, customers may participate in our bundled customer benefit membership scheme, Ocado Smart Pass. In FYE 2016, over half of regular sales were conducted with Ocado Smart Pass customers. With Ocado Smart Pass, customers pay a fixed fee for free deliveries (excluding the week of Christmas) and access to additional discounts available to Ocado Smart Pass customers only. We believe that the Ocado Smart Pass improves customer retention and has driven the frequency and total value of the orders of this customer set.

Product freshness and stock control

Key to our customer offering is the availability of the products offered and their freshness when delivered to the customer. Customers' receipts are arranged by use-by date to underpin the message of the guaranteed freshness of the products ordered. We also operate a shelf life promise whereby a minimum of approximately two-thirds of the total life of the product is guaranteed by the time it reaches the customer. We achieve these results through the aggregation of our operations and our bespoke software operational systems.

Our CFCs operate under a single stock control system, and our inventory system records all available stock in the CFCs and the planned arrival times of future ordered stock. Since we have only online customers, we have a record of all the items ordered at any given time, and are therefore able to indicate on our Webshops to other customers placing their orders which items will be in stock and available for the delivery slot selected by the customer. We call this feature "Availability to Promise" or "ATP" and believe that it significantly reduces the amount of substitution and non-availability of items ordered by customers.

Our inventory system (including ATP) is managed by an in-house developed software system which generates sales forecasts for each product item and replenishment recommendations. It actively measures the performance of its own forecasts, the fulfilment level of suppliers and the product life received from suppliers, using these data to determine an optimum amount of contingency that should be ordered for each item. The more accurate a forecast becomes, the less contingency it will

recommend; this increases product life for customers and the availability of products on our Webshops while at the same time ensures low stock levels in the CFC. High-selling items such as certain fruits are often delivered to the CFCs and on-delivered to customers on the same day.

The centralisation of all inbound and outbound activities in the CFCs means that we do not need to receive interim deliveries to regional distribution centres before the on-delivery of products to stores for sale to customers. This reduces the amount of time it takes for a product to reach a customer from the supplier compared to a traditional supermarket and also helps support product freshness.

Furthermore, streamlining our business through a CFC rather than a chain of physical stores saves on energy usage and associated costs. Equally, our route optimisation software enables us to use fuel more efficiently, reducing journey times and distances. We also offer to collect our plastic bags from customers in order to recycle them, paying customers for each bag they give us.

Our Product offering

We sell Ocado own-label, Waitrose own-label and third party-branded products via our Webshops and we have dedicated destination sites which focus on specialist product ranges: our pet store, Fetch, our kitchen and dining store, Sizzle, and our new premium beauty store, Fabled. Hosting these dedicated destination sites drives the range of products made available to us by niche suppliers and brands, allowing us to extend our product range for customers. As of the end of FYE 2016, we worked with approximately 2,000 different suppliers to service our Ocado, Fetch and Sizzle banners.

Of the approximately 50,000 SKUs on average that were sold by Ocado.com in FYE 2016, over 90% are not supermarket own-label products. Of the remainder, approximately 1% are Ocado own-label and approximately 7% were Waitrose own-label. Our Sourcing Agreement with Waitrose allows us to provide substantially the same product range as a Waitrose store.

Our own-label products are currently predominantly basic grocery items but also include general merchandise items that we position as lower-price alternatives to our competitors basic grocery and merchandise items. Our Ocado own-label continues to grow, further reinforcing our brand recognition. In FYE 2016, we saw Gross Sales (Retail) up 10.9% against the equivalent period in FYE 2015, with growth constrained by our contractual obligations with Waitrose which sets a maximum ratio of Ocado own-label sales to Waitrose own-label sales. The average customer basket now contains over six Ocado own-label products, with over approximately 88% of our customers having bought Ocado own-label products in FYE 2016. We received multiple awards for our Ocado-own label products in 2016, including the *Gold* award for the Ocado own-label Veg and Salad Box by *Women's Fitness* and several awards in organic food and baby product categories at the *Loved by Parents Awards*.

Our business model enables us to improve our efficiency in stocking the "long tail" of slower-moving items. Products tend to have to be stocked by supermarkets in minimum quantities because of the inefficiencies of breaking up a case of products prior to their delivery to the store, and the need to display a critical mass of each SKU on a supermarket shelf. If a traditional supermarket chain wants to stock a slow-moving product, it would typically have to stock that minimum quantity in each store in which the product is sold, even if that quantity of product was likely to take a long time to sell in any one store. This often makes stocking slow-moving items with a short shelf life (such as premium fresh organic ranges) uneconomic for stores in many supermarket chains.

Our business model allows us to order that minimum quantity of slow-moving product only once for a CFC to service its entire delivery area. The effect of aggregating sales to our CFCs therefore allows us to stock slow-moving products more efficiently, reducing the risk of uneconomic wastage.

Marketing, promotion and pricing

Our marketing activities focus on rewarding and incentivising existing customers and attracting new ones.

We have a good understanding of our existing customers' buying habits through our web-based customer contact. This knowledge allows for focused and cost-effective marketing, while respecting customers' privacy. We use predominantly targeted (and often personalised) direct marketing, such as

emails to existing and lapsed customers and vouchers to reward them. We also use vouchers to entice new customers, reward existing ones or encourage higher customer spend.

New customers are attracted through less targeted marketing, such as media advertising, although we use comparatively little of this, as the proliferation of our vans has created a significant visual presence. We also attract new customers by offering vouchers both to them and to existing customers who have recommended them.

In FYE 2016, we spent 1.4% of Gross Sales (Group) on marketing (including vouchers) (FYE 2015: 1.4%).

We aim to price our goods competitively. To this end, we established *Tesco Price Match* in 2008. Under this policy, each week we compare and price match branded goods sold by Tesco plc on the Tesco.com Webshop. We later introduced our *Low Price Promise* policy, which entitles customers to receive vouchers where their entire shopping basket has cost more than it would have at Tesco.com (see fuller description under "*—Our Strengths—Superior customer offering with leading range, service and price proposition driving growth—Price*" above).

As described above, the increasing range of our own-label groceries reflects our aim of providing our customers with value for money. We have sought to position our brand to appeal to customers on a unified platform of quality, convenience, value, range and service.

Relationship with Waitrose and the sourcing of products

We entered into the Sourcing Agreement with Waitrose and John Lewis on 13 October 2000 which was extended and amended in 2008 and 2010.

The Sourcing Agreement gives us access to Waitrose own-label and third party-branded products on the same terms (including cost price) as Waitrose sources them. We also benefit from the premium and quality associations of the Waitrose brand. The arrangement allows us to choose to participate in certain promotional activities arranged by Waitrose with suppliers (although we and Waitrose are free to arrange our own promotional activities as well).

Aggregating our sales with Waitrose's own gives Waitrose increased purchasing power and, as described below, Waitrose receives a sourcing fee in respect of our sales of products that we source through Waitrose.

Terms of the Sourcing Agreement

Unless renewed, the Sourcing Agreement will expire on 1 September 2020, although either party may terminate the agreement early by giving 18 months' notice. As at the date of this Offering Memorandum, no party has given notice to terminate. Under the Sourcing Agreement, Waitrose acts as our sourcing agent for the negotiation of, and entry into, the majority of our supply requirements. We are then able to place our orders for goods with the relevant supplier on the terms obtained by Waitrose. In return, we pay Waitrose a sourcing fee.

We have the right to stock and sell all goods and products in the assortment of grocery products stocked by Waitrose supermarkets (subject to certain limited exceptions) (the "Waitrose assortment"). If we wish to introduce a new product not included in the Waitrose assortment, we may develop the product ourselves or source it directly from a third party (provided that the product does not carry a brand of certain Waitrose competitors).

We have complete retail pricing independence on all products, including Waitrose own-label products and generic branded products that are also stocked by Waitrose. We are under no obligation to offer Waitrose a right of first refusal to source products for the Ocado own-label range. We stock approximately 760 Ocado own-label products which we source directly from suppliers, and are in discussions with suppliers for the supply of further Ocado own-label products.

The mutual obligations on us to source through Waitrose and on Waitrose to source for us mean that approximately 80% of our third-party branded grocery sales are sourced under the sourcing arrangements and at least 70% of our own-label sales (which includes sales of both Ocado own-label

and Waitrose own-label SKUs) must be Waitrose-own label. Of these, currently approximately 90% of goods by volume are delivered to the CFCs directly by the supplier, with whom we agree our own delivery and billing arrangements. This 90% comprises goods from approximately 240 different suppliers, of which 190 are suppliers of Waitrose own-label products. In FYE 2016, own label Ocado and Waitrose products accounted for approximately 40% of sales.

If the relationship between the parties were to cease, through either the current agreements not being renewed or an earlier termination, we believe that we now have sufficient scale to operate autonomously, although we would no longer be able to supply Waitrose own-label products. If this were to occur, we would need adequate time to prepare by increasing the size of our current procurement team, approaching suppliers to build stand-alone relationships and carrying out necessary marketing work with customers, which would involve an additional expense for our business.

Relationship with Marie Claire

In 2016 we entered into a five year collaboration agreement with the magazine brand Marie Claire to launch our premium online store, Fabled. The operation of our Fabled online store is heavily dependent on a small number of supply relationships and brands, as well as our association with Marie Claire. Additionally, our agreement with Marie Claire requires us to operate a bricks and mortar store for Fabled. Our collaboration agreement contains various financial metrics that if not satisfied allow either party to terminate the agreement unilaterally.

The CFCs

Our CFCs are our highly automated warehouses where we receive goods from suppliers that we sort and redistribute to customers using our bespoke software and MHE. We currently operate three CFCs in Hatfield, Dordon and Andover, which opened in 2002, 2013 and 2016, respectively, and we are currently developing our fourth CFC in Erith, South East London, at which we plan to commence operations in FYE 2018.

Our Hatfield and Dordon CFCs predominantly utilise our legacy software and MHE. Although developed in conjunction with and purchased from third party MHE suppliers, this hardware is combined in a bespoke way and is tailored to the specific needs of online grocery retail. The software is proprietary, and largely written by our in-house teams. We continue to improve the productivity of these CFCs – the average units processed per non-management labour hour ("UPH") in these CFCs was 160 in FYE 2016, up 3.2% from FYE 2015.

In November 2016, we commenced operations at our third CFC in Andover, Hampshire. This site houses the first implementation of our new, internally developed, integrated MHE and associated proprietary software, which we also package and offer to solutions partners as part of our Solutions Business. Due to the scalable nature of the solution, the MHE and other automation such as picking stations can be continually added in line with sales growth of our retail business. We anticipate that, at maturity, the solution will enable significant productivity and fulfilment benefits with an expected increase in our fulfilment capacity by around 65,000 orders per week at the Andover CFC. Our fourth CFC in Erith will also utilise our proprietary MHE and software technology and we believe will eventually provide an additional increase in our fulfilment capacity of around 200,000 orders per week (of which 30% will be used by us to service Morrisons.com).

We strive to maintain order accuracy and minimize product waste in all of our CFCs. In FYE 2016, approximately 99.0% of items ordered were delivered exactly as ordered (FYE 2015: 99.3%) and only 0.7% of Gross Sales (Retail) was wastage (FYE 2015: 0.7% of Gross Sales (Retail)).

Further capacity

The CFCs' capacity is described in terms of "effective" capacity, which we present in terms of Ocado equivalent order capacity. We believe that the three operational CFCs will have the effective capacity to process approximately 420,000 orders per week once fully ramped up (95,000 of which is allocated to Morrisons at our Dordon CFC). We believe our fourth CFC in Erith will add an additional

effective capacity to process approximately 200,000 order per week (60,000 which will be allocated to Morrisons). We believe that the capacity of our CFCs is sufficient for our current orders and to accommodate growth in line with our current expectations. To ensure efficient allocation of capital resources, the order-processing capacity of the CFCs has never been significantly higher than the maximum number of orders predicted in a given period.

Spokes

Customers located around the CFCs receive deliveries directly from the CFCs. In FYE 2016, 26.2% of customer orders were delivered directly from the CFCs. Deliveries to customers in other areas are made via the Spokes. The Spokes are small warehouses used as trans-shipment facilities where the delivery vans for the local area are based. These orders are delivered from the CFCs to the Spokes where they are transferred into delivery vans for the final delivery to the customer. The Spokes increase both the geographic range of the Ocado service and the efficiency with which deliveries can be made by allowing a single route driven by one van to encompass more deliveries.

The CFCs and the 17 current Spokes (8 which service Ocado and 9 which jointly service Ocado and Morrisons, including the two Spokes opened during FYE 2016 that are capable of serving approximately 20.3 million U.K. households (approximately 70% of U.K. households). The total capacity of the existing Spoke network is approximately 360,000 orders per week. On average, each Spoke has capacity of up to 13,000 weekly deliveries.

The map below illustrates the location of the CFCs and each of the Spokes, together with the geographic coverage of our business.

Delivery, routing systems and the last mile solution

Key to the efficiency of our delivery solution are our in-house developed routing system and in-van technology which we utilise to optimize the efficiency of the “last mile” delivery service. The routing system software calculates an optimised delivery route for each van for each journey it makes.

With our vans serving a geographic area covering 70% of the U.K. population from only 21 physical sites, optimisation of the routing software is a significant driver of the overall efficiency of our

business. Each incremental improvement in routing has, therefore, the ability to drive considerable overall efficiencies. In the period from FYE 2014 to FYE 2016, average deliveries per van per week increased from 163 to 176 due in part to improved routing systems. This has meant that during that period, while the average number of weekly orders grew from 167,000 to 230,000, an increase of 37.7%, the yearly average number of vans increased from 1,026 to 1,315, an increase of only 28.3%.

We typically lease our vans, other than a small number that we own outright and use for training purposes. Van leases typically last for five or six years and end on a staggered basis so that the van fleet is constantly being renewed.

Our fleet of over 1,440 vans uses the Mercedes Sprinter model, with various modifications developed by us in collaboration with a van customiser, Paneltex Limited ("Paneltex"), and Mercedes-Benz, over the last 16 years. We own 25% of the share capital of Paneltex and have the right to appoint (and have appointed) a director to its board. This enables us to gain a better understanding of developments in the light vehicle market and maintain a close relationship with this key supplier.

Capitalising on the fulfilment accuracy of our CFC model, a further combination of the dedication of our delivery personnel, our in-house developed routing system and the functionality of each van's on-board computer have resulted in a modest value of post-delivery adjustments to customers' orders. In FYE 2016, approximately 99.0% of items ordered were delivered exactly as ordered (FYE 2015: 99.3%) and 94.9% of all deliveries were on time or early (FYE 2015: 95.3%).

Our Solutions Business

From 2013 we begun to commercialise our capabilities and years of learning derived from our retail experience to offer a platform to grocery retailers (which we refer to as our "solutions partners"), beginning with our relationship with the U.K. grocery retailer, Morrisons, which is described in further detail below. We intend to expand our Solutions business, principally outside of the U.K. by offering our proprietary end-to-end software and physical infrastructure solution – Solutions Business – to grocery retailer solutions partners globally. Future platform transactions could take various forms and include licensing, leasing, sale and investment elements as well as establishing joint venture or other partnership-like arrangements with platform customers.

Relationship with Morrisons

In May 2013, we entered into a 25-year agreement (as amended by the 2016 Extension described below, the "Morrisons Operating Agreement") with Wm Morrisons Supermarkets plc ("Morrisons"), a U.K. supermarket, to provide certain technology, logistics and distribution services to enable Morrisons to launch and develop its online grocery business by utilising half of our capacity of our Dordon CFC to service Morrisons' orders. Under the terms of the Morrisons Operating Agreement we sold to Morrisons certain assets, including a subsidiary which held a 999-year lease of the Dordon CFC, Morrisons granted to us a 25-year lease to the Dordon CFC and we agreed to own jointly all the MHE in the Dordon CFC. To do this we created a 50/50 joint venture company with Morrisons and sold all of the Dordon MHE to it, in exchange for a cash payment from the joint venture company equal to 50% of the market value of the Dordon MHE.

In August 2016, we amended the Morrisons Operating Agreement (the "2016 Extension") by entering into a 30-year agreement with Morrisons to share additional capacity in our forthcoming Erith CFC and licence the store pick module of our Solutions Business, described in further detail below. Under the arrangements, Morrisons pays us a variety of fees, including its *pro rata* share of the operating expenses at the Dordon CFC. The fee arrangement with Morrisons at the Erith CFC is largely in line with those are the Dordon CFC, though are structured such that they incur less capital expenditure. We provide the entire end-to-end solution to facilitate the operation of Morrisons online grocery business, from inventory procurement to order fulfilment, at our Dordon and, from 2018, Erith CFCs. Morrisons has seen strong growth in their online business since we launched our solutions partnership with them. Since January 2014, we have expanded the capacity of their online grocery retail business from no online business to a peak of 90,000 orders per week for FYE 2016. Morrisons.com made its one millionth delivery after 12 months; by comparison it took Ocado.com 27 months to do the same.

We have licensed the Solutions Business store pick module to Morrisons to provide Morrisons with the software necessary for it to fulfil online orders from its own stores alongside those online orders fulfilled by us from the Dordon and Erith CFCs. In connection with the 2016 Extension, we also entered into a general merchandise supply agreement whereby we agreed to expand our arrangement with Morrisons to include the sourcing, fulfilment and delivery of general merchandise products for Morrisons.com. For more information on our Dordon CFC, see "—*Dordon CFC*". For more information on our Erith CFC, see "— *Erith CFC*".

Dordon CFC

In connection with the Morrisons Operating Agreement, in 2013 we sold the MHE at the Dordon CFC to a joint venture company, MHE JVCo Limited ("MHE JVCo"), in which each of we and Morrisons own a 50% equity interest. We lease the MHE at the Dordon CFC from MHE JVCo and Morrisons are entitled to 50% of the capacity of the Dordon CFC under the terms of the Morrisons Operating Agreement. We also lease the land and buildings of the Dordon CFC from Morrisons. 50% of the rent payable under this lease is charged back to Morrisons pursuant to the terms of the Morrisons Operating Agreement.

We received an upfront fee and are entitled to a number of ongoing payments from Morrisons in respect of the Dordon CFC, including an annual IT payment based on a percentage of sales of Morrisons' online retail business and payments to cover certain operating, maintenance, replacement and capital expenditure costs at the Dordon CFC and in respect of the operation of our Spoke network for Morrisons' benefit.

Erith CFC

Under the terms of the Morrisons Operating Agreement as amended by the 2016 Extension, following a two year ramp-up from the opening of the Erith CFC to Morrisons, Morrisons will be entitled to a fixed amount of capacity equal to approximately 30% of the expected mature capacity of the Erith CFC, subject to a number of operating assumptions. Morrisons will have no ownership interest in the MHE at or in our lease of the Erith CFC.

Under the terms of the Morrisons Operating Agreement, Morrisons will pay us a fixed annual capacity fee in respect of the MHE capacity of the Erith CFC. Morrisons also agreed to pay certain initial and ongoing building and other fixed costs (including rent and rates) and its *pro rata* share of all variable costs at the Erith CFC.

Store Pick Module

Under the terms of the 2016 Extension, we agreed to provide to Morrisons the store pick module from the OSP. The store pick module is the software platform that will allow Morrisons to fulfil online orders from its existing retail stores. The physical fulfilment process enabled by the store-pick solution will be operated by Morrisons, with Ocado providing and maintaining the software platform, which includes the entire end-to-end systems such as Webshop, apps and routing software, that are needed by Morrisons to operate that part of the business.

Morrisons will pay certain up-front fees for access to the store pick module together with an annual licence fee calculated as a percentage of the sales generated using the software (and subject to an annual minimum). Morrisons will pay for and operate the delivery fleet for its store pick module.

It is expected that Morrisons will commence the rollout of the store-pick solution in the second half of 2017.

Additional Terms of the Morrisons Operating Agreement

- Morrisons pays an indexed annual fixed fee in respect of a portion of our future research and development. This fixed fee will be reduced upon the online operation going live in Erith.
- The Morrisons Operating Agreement contains a restrictive covenant with respect to exclusivity, under which Morrisons will not operate its online grocery business in the U.K. other than under this agreement, and Ocado will not provide similar online grocery services in

the U.K. to more than one competitor of Morrisons at any one time (with Ocado included amongst those competitors). The exclusivity restrictions will be reduced upon the full rollout of the store-pick module to allow us to provide services to certain U.K. grocery retailers previously excluded under the original Morrisons Operating Agreement.

- The Morrisons Operating Agreement contains a number of termination rights including:
  - Either party may terminate the agreement if a U.K. grocery industry competitor acquires the other party;
  - Morrisons may terminate the arrangement in respect of the store-pick module only at any time upon 18 months' notice;
  - Morrisons may terminate the agreement in respect of the Erith CFC only following the fifth anniversary of launch of the Erith CFC. If Morrisons terminates before the tenth anniversary of launch, it will be required to pay us a compensation fee, less an amount in respect of the building costs it had met. Following a termination, the partial reduction in the annual research and development fee that became effective upon the commencement of Erith operations would be reversed; and
  - Standard mutual termination rights for default and insolvency.
- We are required to provide the same standard of services to Morrisons.com in respect of the CFCs, as we provide to Ocado.com. In addition, there are requirements to achieve certain minimum service levels with reductions in certain of our fees in the case of these not being achieved.
- In 2016 we agreed to expand elements of the Operating Agreement from grocery to general merchandise under a short term supply contract with Morrisons in respect of these general merchandise products, allowing Morrisons to range these products on Morrisons.com using the capacity of Ocado's GMDC. This arrangement is expected to strengthen Ocado's operating contribution in its general merchandise business and enhance its purchasing strength in relevant categories.

Relationship with Dobbies

In March 2017, our general merchandise division entered into an agreement with the U.K. based Dobbies Garden Centres under which it will provide technology and logistics services to Dobbies to enable Dobbies to launch and develop its own online business. The agreement has an initial five-year term. This transaction builds on the growing success of the general merchandise division, including its supply and fulfilment relationship with morrisons.com (running separately from the grocery fulfilment operation) and the partnership with Marie Claire to create fabled.com. These business to business relationships within general merchandise have grown from the successful launch and operation of the group's own fetch.co.uk and sizzle.co.uk sites. Dobbies' online business is expected to go live in the second half of 2017.

Our Solutions Business, powered by OSP

OSP is being offered internationally as a fully integrated service which will provide customisable solutions depending on the retailer's specific requirements and the service they wish to offer their customers. Through the OSP, we provide the software, the MHE and the training to enable our solutions partners to implement and scale their own online grocery retail businesses. In June 2017, we entered into an agreement with our initial international Solutions Business customer (beyond our U.K. solutions partner Morrisons, as described above). See "—*Relationship with a European regional retailer*".

We recognise that a retailer's priorities may be different depending on its nationality, geography, level of maturity and strategic direction. The Solutions Business technology offering is intended to allow the retailer the flexibility to choose how to service customers through two alternative fulfilment solutions, either an automated CFC or a manual pick facility, and when picking using the manual pick facility, the retailer can either pick their orders manually from dedicated manual warehouses ("dark stores") or from the existing store network. These fulfilment solutions are not mutually exclusive and can be operated in conjunction with each other to enhance the flexibility of our offering for different

partners. Equally, Solutions Business technology can support alternative last mile operations such as retailer delivery, customer collection, locker boxes or courier services. This customisation is designed to allow the best strategic package to be developed for each partner. All solutions will be powered by OSP's technology.

We believe that our years of innovation originating from our own retail business enable us to replicate our unique capabilities at a significantly lower cost to alternative solutions. In comparison to most other third-party providers of services and software, we have developed our end-to-end solutions specifically with grocery retail in mind. Each part of the solution has been designed and engineered with the qualities and characteristics that grocery shopping requires, which has allowed us to develop what we believe to be a market-leading solution for Morrisons and future corporate partners. Our MHE and CFC centralised pick solution can be retrofitted into standard warehouse buildings. It is modular in nature (can be built to different sizes), scalable (can be increased in size over time) and we expect will be fast to deploy (short build and commissioning lead times), providing significant benefits in matching capacity requirements to business volume demands. To enhance the customer proposition, other products, applications or features can be integrated into our Solutions Business technology such as general merchandise, loyalty schemes or grocery range extensions. We believe these additional features will help to increase customer retention for our corporate partners and drive growth.

Relationship with a European regional retailer

On 5 June 2017, we announced we had entered into an agreement with a European regional retailer (the "European Retailer") to use our Solutions Business technology. The partner wishes its identity to remain confidential prior to the launch of its online business to retain its competitive advantage. Under this agreement, we will provide certain Solutions Business software, know-how and support services required by the European Retailer to create an efficient and intelligent online grocery business, with orders initially fulfilled from a manually operated centralised warehouse. There is no fixed term to the agreement. It is expected that the European Retailer will be ready to launch its online business powered by our Solutions Business technology in 2017. The partner will pay an up-front fee to us for access to our Solutions Business technology, together with ongoing fees that are based on the volume of products sold online. We expect the arrangement to be earnings and cash neutral in the current and 2018 financial years, and increasingly accretive thereafter.

The CFC centralised pick solution

The CFC centralised pick solution allows for the MHE and software to run centralised picking and fulfilment, where customer orders are picked and packed within a modular grid system that can be scaled with growth. We believe this functionality would provide a customer desiring high picking accuracy and a large range with an attractive solution that is cost-effective to implement and scale.

The store pick solution

The store pick solution allows for customer orders to be picked and packed directly from a corporate partner's existing stores. Despite expected weaker economics at scale, this alternative picking solution enables a quicker-to-market option and allows full geographic coverage to areas where the centralised picking solution does not reach. It is complementary to CFC fulfilment and would enable retailers to utilise their existing store estate to build online sales volume that could later be transferred to more efficient CFCs. As described above, we have licensed our store-pick solution to Morrisons in the U.K. and expect the rollout of their store-pick solution to begin in the second half of 2017.

IT Systems and other intellectual property

IT

We have a dedicated in-house software design and development team that is continually developing and refining the entire software stack on which our Solutions Business technology will run, and we use increasingly less software supplied by third parties in our legacy operations. Many of the IT systems that we have developed provide solutions to problems for which off-the-shelf IT solutions either do not exist or are inadequate for our business. For this reason, IT research and development is

important to the execution of our strategy. Internally generated software is used in our user interfaces, warehouse systems and routing optimisation systems. We upgrade our software from time to time and are currently in the process of re-platforming some of our systems, which could lead to temporary delays or disruptions.

The intellectual property for some software used within our business is held by third parties. This includes commodity software, such as *Oracle Financials* and *Microsoft Office*, and software published under free and open-source software licences, such as the *GNU Public Licence* or the *Apache Licence*. We also use certain bespoke third-party software, principally for historic reasons, which we are in the process of replacing with software developed in-house.

Intellectual Property

Our proprietary IP, knowledge and technology are at the core of our retail and Solutions businesses. We seek to continually improve the technology we use and believe that innovation creates significant competitive advantages across our retail and Solutions businesses. We continue to invest in our IT (over 950 employees as of the end of FYE 2016) and our engineering development teams (over 200 qualified engineers as of the end of FYE 2016) and have technology development centres in the U.K., Poland, Bulgaria and Spain, which we believe help to build our reputation as a global technology leader and attract talented employees. We are focused on the development and deployment of our new Solutions Business technology, which we have implemented in our Andover CFC and intend to implement in our Erith CFC and which we believe will highlight the significant operational and capital efficiency advantages. The growth of Morrisons' online grocery business – and the extension of our contract with Morrisons in August 2016 – provides an example of the advantages and competitiveness of our technology. For Morrisons and our future corporate partners we are focused on embedding the improvements to our retail proposition into our Solutions Business technology and extending our offering with new capabilities such as the store pick module which will go live with Morrisons this year.

As of May 2017, we had filed patent applications covering over 58 separate innovations. Of the patent applications filed so far, the majority relate to our physical infrastructure solution, which is now live in Andover. Our first patents were granted in 2016.

Our proprietary intellectual property is integral to the functionality of all aspects of operations, and we believe that the implementation of many of these IT systems, coupled with the plant and machinery at the CFCs (much of which is bespoke to our business) including in relation to our newly developed proprietary MHE and associated software to automate the picking process that is currently being used in our CFC in Andover and will be used in our future CFC in Erith together with the expertise to manage these operational processes, have had a direct and positive impact on our business, such as:

- the bespoke stock ordering system has increased product availability by using replenishment algorithms designed specifically for Ocado's mix of SKUs and product categories while at the same time increasing efficiency of stock control but without materially increasing waste.
- the bespoke computer code that controls CFC machinery has increased the number of units processed in the mature CFCs per hour by increasing throughput above the machinery manufacturers' expectations. UPH have increased by 32.2% since FYE 2012; and
- the bespoke route optimisation application, combined with increased customer density, has increased deliveries per van per week by 6.0% since FYE 2015.

Our key brand is the Ocado name itself, which is used both as a plain word and in its stylised form together with the Ocado logo. Our brands also include the OSP, our end-to-end online grocery platform solution, Fetch.co.uk, our dedicated pet store, Sizzle.co.uk, our dedicated kitchen and dining store, and Fabled.com, our premium beauty store in partnership with Marie Claire. Our portfolio of registered trademarks includes a series of U.K. and European trademarks which protect both the name and the name and logo of the aforementioned brands, in addition to a number of other trademarks. We also own a number of domain name registrations, including www.ocado.com, www.fetch.co.uk, www.sizzle.co.uk and www.fabled.com.

Our sub-brands and other branding material, such as slogans, logos, colours and designs, are also featured on our Webshops and in Ocado marketing. These materials are not all protected by registered rights, but some protection may be afforded by unregistered design rights, unregistered trademarks and copyright.

The Waitrose brand and Waitrose trademarks also feature in Ocado marketing and on our Webshops and are licensed by Waitrose under the Branding Arrangements, more fully described in "*—Relationship with Waitrose and the sourcing of products—Terms of the Sourcing Agreement*".

Data centre, resilience and disaster recovery

We have invested in building data centres with standardised and scalable hardware, which provide onsite failover and an offsite disaster recovery facility located approximately one mile from the Hatfield CFC. These facilities host most of our applications and our Webshops. The data centres are maintained by the in-house IT operations team. These facilities have been designed so that a hardware failure on a live operational application will failover to either alternative hardware within the data centre or in the disaster recovery facility.

In the event of a disaster, Ocado's business continuity plans will be invoked and the data centre applications can be hosted from an offsite IT room in the HQ building, which is approximately 0.5 miles from the CFC. This facility currently supports standby database servers, storage and network links, and is in the process of being expanded so that it can support all systems in the event of a disaster. We are confident that our databases will successfully failover or switchover in the case of a disaster, through a combination of testing, use of third party products and actual experience. In FYE 2016 four databases were required to failover for various reasons and successfully did so.

Ocado's network security employs common enterprise level hardware. In addition, Ocado contracts a third party to complete regular independent security testing on its network and systems.

Our Employees

The average monthly number of employees (including Executive Directors) by function is set out below:

Category	FYE 2016	FYE 2015	FYE 2014
Operational Staff	9,308	7,453	6,001
Support Staff	1,622	1,241	1,004
Total	**10,930**	**8,694**	**7,005**

Research and development

As described above, our research and development primarily focus on IT and improvements to the customer interfaces, the CFCs and the automation equipment used in them. In addition, the Company dedicates research and development resources to the other elements of our business and to other applications of our proprietary technology and from time to time partners with third party suppliers on joint research and development efforts in this regard.

Regulation

Our obligations as an online grocer include the safe and careful handling of products from receipt at the CFCs through to delivery to the customer's home. We have a health and safety department with managers dedicated to the CFCs and the delivery operation, respectively.

We also have a food technology department, and food handling procedures are monitored closely to ensure the protection of product safety, quality standards and compliance with all food law. Scheduled internal and external audits are conducted by qualified food technologists to ensure procedural compliance and adherence with our Hazard Analysis Critical Control Point system. This is a system that identifies, evaluates, and controls hazards that are significant for food safety, taking account of the Food Safety Act 1990, the Food Hygiene (General) Regulations 1995 and the Food Hygiene (Temperature Control) Regulations 1995.

The Groceries Supply Code of Practice ("GSCOP") is U.K. legislation designed to regulate the relationship between supermarkets and their suppliers. This includes certain training, reporting requirements and obligations concerning supplier relationships. When GSCOP was launched in 2009 it applied only to those retailers who sold over £1 billion of groceries at the time, and its ambit has not been extended since. While we are not subject to the GSCOP we generally seek to conduct our business broadly in compliance with it.

We operate a fleet of 133 LGV tractors and have provisions for approximately 207 LGV trailers under our Operator's Licence issued by the U.K. Vehicle and Operator Services Agency. Road Transport legislation and regulations determine the maximum load that the LGVs and vans can carry, and the maximum number of hours a driver can work in a 24-hour period.

As a customer-facing e-commerce business, we also have access to a variety of customer and employee personal data, and our Solutions Business will process customer personal data on behalf of our solutions partners. As such we are subject to data privacy laws, including the General Data Protection Regulation (EU) 2016/679 ("GDPR"), which entered into force on 24 May 2016 and will apply in all EU member states from 25 May 2018. We will continue to review and develop existing processes to ensure that customer and employee personal data is processed in compliance with the GDPR's requirements to the extent that they are applicable to us.

MANAGEMENT

Overview of Management Structure of the Issuer

The Group is managed by a Board of Directors, consisting of eleven directors, seven of which are non-executive directors. The Chairman of the Board of Directors is Lord Rose. The Board of Directors delegates certain matters to committees and delegates the detailed implementation of matters approved by the Board of Directors and the day-to-day operational aspects of the business to the Executive Directors.

The business address of the directors of the Group is at the Group's registered office and principal place of business at Buildings One & Two, Trident Place, Mosquito Way, Hatfield, Hertfordshire AL10 9UL, England.

Board of Directors

The following table sets forth the name, age as at the date of this Offering Memorandum and position of each member of the Board of Directors of the Group:

Name	Age	Position
Lord Rose	68	Non-Executive Chairman
Tim Steiner, OBE	47	Chief Executive Officer
Duncan Tatton-Brown	52	Chief Financial Officer
Mark Richardson	52	Chief Operations Officer
Neill Abrams	52	Group General Counsel and Company Secretary
Alex Mahon	43	Non-Executive Director and Senior Independent Director
Ruth Anderson	63	Non-Executive Director
Douglas McCallum	51	Non-Executive Director
Jörn Rausing	57	Non-Executive Director
Andrew Harrison	46	Non-Executive Director
Emma Lloyd	47	Non-Executive Director

Lord Rose was appointed to the Board of Directors in 2013 and has worked in retail for over 40 years. He has held Chief Executive Officer positions at Argos plc, Booker plc, Arcadia Group plc and Marks and Spencer plc. He was Chairman of Marks and Spencer plc from 2008 to 2011. Lord Rose was knighted in 2008 for services to the retail industry and corporate social responsibility, and granted a life peerage in August 2014.

Tim Steiner, OBE, is the founding Chief Executive Officer of Ocado, which he started in 2000. Prior to Ocado, he spent eight years as a banker at Goldman Sachs, during which time he was based in London, Hong Kong and New York in the Fixed Income division. Tim graduated from Manchester University in 1992 with an honours degree in Economics, Finance and Accountancy.

Duncan Tatton-Brown was Chief Financial Officer of Fitness First plc prior to joining Ocado and previously Group Finance Director of Kingfisher plc, one of the world's largest home improvement retailers. He has also been Finance Director of B&Q plc, Chief Financial Officer of Virgin Entertainment Group and held various senior finance positions at Burton Group Plc. Duncan holds a master's degree in Engineering from King's College, Cambridge. He is also a member of the Chartered Institute of Management Accountants.

Mark Richardson was Head of Technology at Ocado from 2001 until he joined the Board in 2012. He is responsible for the day-to-day running of the Ocado operation, including CFCs, logistics developments, customer service, business planning, engineering and technology. Mark is a Director of Paneltex Limited, a company in which the Group holds a 25% shareholding. Prior to joining Ocado, Mark held a number of IT positions at the John Lewis Partnership, including Head of Selling Systems at Waitrose. He graduated from University College, London with a degree in Physics.

Neill Abrams has been a Director since 2000, having advised Ocado since its founding. He has Board responsibility for legal, insurance, risk management, human resources and Corporate Responsibility. Prior to Ocado, he was a barrister in practice at One Essex Court and spent nine years

at Goldman Sachs in London in the investment banking and legal divisions. Neill holds degrees in industrial psychology and law from the University of the Witwatersrand in Johannesburg and a Masters in Law from Sidney Sussex College, Cambridge. He is a member of the Bar of England and Wales, the New York Bar and a South Africa Advocate.

Alex Mahon was appointed the Chief Executive Officer of the leading design and visual effects software firm, Foundry, in November 2015. Alex has been appointed Chief Executive of Channel 4 with effect from Autumn 2017. Alex was previously CEO of Shine Group, a global television content production company and before Shine Group, Alex spent seven years in the television industry at talkbackTHAMES, FremantleMedia and RTL Group. Previously she worked in the internet sector as a consultant. She holds a Physics degree from Imperial College, London and a Physics PhD from Imperial College and the Institute of Cancer Research.

Ruth Anderson is a non-executive director and audit committee chair at three U.K. listed companies. She was a vice-chairman of the accounting and advisory firm KPMG in the U.K. from 2004 to 2009 and a member of the KPMG U.K. board from 1998 to 2004. She is a fellow of the Institute of Chartered Accountants in England and Wales and a member of the Chartered Institute of Taxation.

Douglas McCallum has been a pioneer of the internet industry for a number of years, having been at eBay Inc. from 2001 to 2014, where he led the U.K. business and then turned around the pan-European business. Prior to joining eBay Inc. he was founder and general manager of a number of businesses in the internet, broadcasting, software and hardware industries. Douglas read Politics, Philosophy and Economics at the University of Oxford, and has an MBA from Harvard Business School.

Jörn Rausing has over 25 years' experience in corporate development and international mergers and acquisitions. Jörn holds a degree in Business Administration from Lund University, Sweden.

Andrew Harrison was appointed Deputy Group Chief Executive of Dixons Carphone Plc in August 2014. He was previously Chief Executive Officer of Carphone Warehouse Plc. Andrew graduated with a BA in Management Studies from the University of Leeds in 1992.

Emma Lloyd, as Sky's Group Director of Business Development and Strategic Partnerships, identifies and nurtures key strategic relationships with Sky's technology partners. Emma has overseen the creation of Sky's start-up venture investment function and U.S. presence, leading to the investment in over 20 technology startups. Emma graduated with a BA Joint Hons in Management Studies and Geography from the University of Leeds in 1992.

Conflicts of Interest

There are no conflicts of interest between the duties to the Group of the directors listed above, and their private interests and other duties.

Board Committees

The Board of Directors has delegated certain matters such as audit, remuneration and nomination of candidates for different positions within the Group to committees of the Board of Directors.

Audit Committee

The audit committee consists of three members: Ruth Anderson (Chairman), Alex Mahon and Andrew Harrison.

The audit committee's role is to review and report to the Board on the Group's financial reporting, internal control and risk management systems, the independence and effectiveness of the external auditors and the effectiveness of the Internal Audit and Risk function.

Remuneration Committee

The remuneration committee is composed of three members: Douglas McCallum (Chairman), Ruth Anderson and Andrew Harrison.

The remuneration committee determines the remuneration, bonuses, long-term incentive arrangement, contract terms and other benefits in respect of the Executive Directors, the Chairman and the Company Secretary.

Nomination Committee

The nomination committee is composed of seven members: Lord Rose (Chairman), Jörn Rausing, Ruth Anderson, Douglas McCallum, Alex Mahon, Andrew Harrison and Emma Lloyd.

The nomination committee undertakes an annual review of succession planning and ensures that the membership and composition of the Board, including the balance of skills, remain appropriate.

Internal Control and Risk Management

The Group's risk management process is designed to improve the likelihood of delivering its business objectives, protect the interests of its key stakeholders, enhance the quality of its decision making, and assist in the safeguarding of its assets, including people, finances, property and reputation.

The Board is responsible for the identification of the Group's key strategic and emerging risks, and for the review and approval of the risk management framework. The Audit Committee, delegated by the Board, is responsible for the independent review of the effectiveness of risk management, the system of internal control, and the monitoring of the quality of consolidated financial statements and consideration of any findings reported by the auditors in relation to the Group's control environment and financial reporting procedures.

The key features of the Group's system of internal control and risk management, including those relating to the financial reporting process, are:

- an organisational structure with clear segregation of duties, control and authority, and a framework of policies covering all key areas;
- a system of financial reporting, business planning and forecasting processes;
- a capital approval policy that controls Group capital expenditure and a post-completion review process for significant projects;
- monitoring the progress of major projects by management, the Executive Directors and the Board;
- a Risk Committee which monitors Group risk control processes;
- an Information Security Committee which monitors Group information security;
- an Internal Audit and Risk function that provides independent assurance on key programmes and controls;
- a treasury policy overseen by a Treasury Committee that manages Group cash and deposits, investments, foreign exchange and interest rates, so as to ensure liquidity and minimise financial risk;
- a food and product technology department, responsible for designing and monitoring compliance with Group processes for the procurement and handling of foods and other goods for resale; and
- other control measures outlined elsewhere in this Offering Memorandum including legal and regulatory compliance and health and safety.

PRINCIPAL SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

The Company's authorised and issued ordinary share capital comprises a single class of ordinary shares. The shares have a nominal value of 2 pence each.

As at 5 June 2017, being the last practicable date prior to publication of this Offering Memorandum, the Company's issued share capital consisted of 630,046,835 issued ordinary shares.

Each ordinary share carries one right to vote at a general meeting of the Company.

No changes have been disclosed in accordance with Disclosure and Transparency Rule 5.1.2R of interests in 3% or more of the voting rights attaching to the Company's issued share capital in the period between 27 November 2016 and 5 June 2017 (being the last practicable date prior to the publication of this Offering Memorandum), except as set out in the table below:

	Number of Ordinary Shares/Voting Rights	Percentage of Issued Share Capital	Nature of Holding
The London and Amsterdam Trust Company Limited	95,689,034	15.20	Direct/Indirect
Citigroup Global Markets Limited	50,609,448	8.03	Direct
The Goldman Sachs Group, Inc	23,128,061	3.67	Indirect
Morgan Stanley (Institutional Securities Group and Global Wealth Management)	22,273,300	3.54	Direct
Norges Bank	17,837,299	2.83	Direct

These figures represent the number of shares and percentage held as at the date of notification to the Company.

Director Shareholdings

The beneficial interests in the Company's shares of Directors serving at the end of the periods, and their connected persons, as shareholders and as discretionary beneficiaries under trusts, were:

	Ordinary Shares at 2 Pence each held at FYE 2016		Ordinary Shares at 2 Pence each held at FYE 2015		Ordinary Shares at 2 Pence each held at FYE 2014	
Director	Direct Holding	Indirect Holding	Direct Holding	Indirect Holding	Direct Holding	Indirect Holding
Tim Steiner	15,205,557	14,292,464	14,478,423	14,291,200	14,404,145	14,291,314
Lord Rose	1,202,284	—	750,000	—	750,000	—
Duncan Tatton-Brown	561,363	61,247	97,865	60,650	97,865	60,163
Mark Richardson	243,808	6,328	—	694	—	208
Neill Abrams	754,386	1,319,048	597,007	1,314,339	560,054	1,313,853
Alex Mahon	17,355	—	11,099	—	11,099	—
Ruth Anderson	80,000	—	80,000	—	80,000	—
Andrew Harrison	11,500	—	—	—	—	—
Douglas McCallum	100,000	—	20,000	—	10,000	—
Jörn Rausing	—	69,015,602	—	69,015,602	—	69,015,602
Emma Lloyd	—	—	—	—	—	—
Former Directors:						
Robert Gorrie	415,660	—	415,660	—	415,660	—
David Grigson	—	—	35,000	—	35,000	—
Jason Gissing	—	—	—	—	5,276,200	9,857,600

Notes:

(1) The indirect holding for Neill Abrams includes holdings of Caryn Abrams (wife of Neill Abrams) who holds 79,701 (FYE 2015: 79,745 and FYE 2014: 79,745) ordinary shares, Daniella Abrams (daughter of Neill Abrams) who holds 1,363 (2015 FYE: nil and FYE 2014: nil) ordinary shares, Mia Abrams (daughter of Neill Abrams) who holds 1,363 (FYE 2015: nil and FYE 2014: nil) ordinary shares, Joshua Abrams (son of Neill Abrams) who holds 1,363 (FYE 2015: nil and FYE 2014: nil) ordinary shares and as a discretionary beneficiary of a trust holding 133,100 (FYE 2015: 133,100 and FYE 2014: 133,100) ordinary shares.

(2) The indirect holding for Duncan Tatton-Brown includes a holding by Kate Tatton-Brown (wife of Duncan Tatton-Brown) who holds 59,934 (FYE 2015: 60,000 and FYE 2014: 60,000) ordinary shares.
(3) The indirect holding for Mark Richardson includes a holding by Rebecca Richardson (wife of Mark Richardson) who holds 4,970 (FYE 2015: nil and FYE 2014: nil) ordinary shares.
(4) There have been no changes in the Directors' interests in the shares issued or options granted by the Company and its subsidiaries between the end of the period and the date of this Offering Memorandum, except interests held pursuant to the Share Incentive Plan ("SIP"), the Sharesave Scheme, and the Long Term Incentive Plan ("LTIP"). There have been no changes in the Directors' beneficial interests in trusts holding ordinary shares of the Company.
(5) No Director had an interest in any of the Company's subsidiaries at the beginning or end of the periods.
(6) Tim Steiner has granted a security interest over his ordinary shares in the Company. The security interest has been granted in connection with a loan made to him. The security interest was granted over 15,197,812 (FYE 2015: nil and FYE 2014: nil) ordinary shares in the Company and any further ordinary shares held by Tim Steiner from time to time. Arthur Seligman as trustee of the Steiner 2008 Millennium Trust, of which Tim Steiner is one of a number of discretionary beneficiaries, has granted a security interest over 14,291,200 (FYE 2015: nil and FYE 2014: nil) ordinary shares in the Company.
(7) On 13 May 2016, in respect of various contracts for the transfer of shares, Tim Steiner delayed the date on which completion under the contracts for transfer would take place to 30 June 2019, or such later date as the parties may agree. As a result of the security interest granted over Tim Steiner's ordinary shares in the Company, (see note 6) the completion of these contracts is conditional on the release of the security interest.
(8) On 11 May 2016, in respect of various contracts for the transfer of shares, Neill Abrams delayed the date on which completion under the contracts for transfer would take place to 30 June 2019, or such later date as the parties may agree.
(9) On 23 November 2016, Jörn Rausing notified the Company of a transfer of 69,015,602 shares in the Company from Hamilton Trust Company Limited as trustee of the Apple II Trust (of which Jörn Rausing is a beneficiary) to Apple III Limited (which is owned by Apple III Trust, of which Jörn Rausing is a beneficiary).
(10) Where applicable, the above indirect holdings include SIP Partnership Shares held under the SIP, which are held in trust.
(11) Andrew Harrison was appointed on 1 March 2016.
(12) Emma Lloyd was appointed on 1 December 2016, after the 2016 period end. Emma has not purchased Company shares as at the date of publication of this Offering Memorandum.
(13) Of the Directors listed in the table, Jason Gissing, David Grigson and Robert Gorrie are not current Directors. Jason Gissing retired from the Board on 7 May 2014, David Grigson retired from the Board on 4 May 2016, and Robert Gorrie retired from the Board on 3 May 2017. The shareholdings shown are those as at the date of each individual's retirement from the Board.

Related Party Transactions

Key Management Personnel

Only the Executive and Non-Executive Directors of the Group are recognised as being key management personnel. It is the Board of Directors which has responsibility for planning, directing and controlling the activities of the Group.

Compensation of key management personnel can be found below.

	FYE 2016	FYE 2015	FYE 2014
		(£ million)	
Salaries and other short-term employee benefits	3.2	3.2	3.2
Share-based payments	3.1	5.6	3.7
Total	**6.3**	**8.8**	**6.9**

Other related party transactions with key management personnel made during the period related to the purchase of professional services and amounted to £900 (FYE 2015: £6,000 and FYE 2014: £15,000). All transactions were on an arm's length basis and no period end balances arose as a result of these transactions. At the end of the period, there were no amounts owed by key management personnel to the Group (FYE 2015: £nil and FYE 2014: £nil). There were no other material transactions or balances between the Group and its key management personnel or members of their close family.

There were no contracts of significance as of the end of FYE 2016 (FYE 2015: none and FYE 2014: none) between the Company or any Group company and either (1) a Director of the Company, (2) a close member of a Director's family or (3) a controlling shareholder of the Company.

Investment

The following transactions were carried out with Paneltex Limited, a company incorporated in the U.K. in which the Group holds a 25% interest.

	FYE 2016	FYE 2015	FYE 2014
		(£ million)	
Purchase of goods			
— Plant and machinery	—	0.1	—
— Consumables	0.5	0.5	0.4
Sale of goods	0.1	—	—
	0.6	**0.6**	**0.4**

Indirect transactions, consisting of the purchase of plant and machinery through some of the Group's finance lease counterparties, were carried out with Paneltex Limited to the value of £11.8 million (FYE 2015: £12.2 million and FYE 2014: £7.2 million). At period end, the Group owed Paneltex £57,000 (FYE 2015: £31,000 and FYE 2014: £19,000).

Joint Venture

The following transactions were carried out with MHE JVCo, a joint venture company, incorporated in the U.K., in which the Group holds a 50% interest:

	FYE 2016	FYE 2015	FYE 2014
		(£ million)	
Capital contributions made to MHE JVCo	1.1	—	6.5
Dividend received from MHE JVCo	8.4	8.1	—
Reimbursement of supplier invoices paid on behalf of MHE JVCo	4.9	6.1	34.9
Lease of assets from MHE JVCo	3.1	3.0	31.0
Capital element of finance lease instalments paid to MHE JVCo	13.8	14.3	15.7
Interest element of finance lease instalments accrued or paid to MHE JVCo	5.8	6.2	5.4

During the period the Group paid lease instalments (including interest) of £19.6 million (FYE 2015: £20.5 million and FYE 2014: £21.1 million) to MHE JVCo.

Of the £19.6 million, £10.7 million (FYE 2015: £10.6 million and FYE 2014: £8.9 million) was recovered directly from Morrisons in the form of Other Income and a further £8.4 million (2015: £8.1 million and 2014: £nil) was received from MHE JVCo by way of a dividend. The remaining £0.5 million (2015: £1.8 million and 2014: £12.2 million) represents capital expenditure requirements of MHE JVCo for which no additional funding was required from Ocado. The net result is the termination of £13.8 million of MHE JVCo debt during the period (FYE 2015:£14.3 million and FYE 2014: £15.7 million) with no corresponding net cash outflow.

In the current period, the Group made capital contributions of £1.1 million to MHE JVCo (FYE 2015: £nil and FYE 2014: £6.5 million).

Included within trade and other receivables is a balance of £5.3 million owed by MHE JVCo (FYE 2015: £5.6 million and FYE 2014: £3.5 million). £0.8 million of this relates to a finance lease accrual which is included within other receivables (FYE 2015: £1.0 million and FYE 2014: £2.7 million). £4.5 million (FYE 2015: £4.6 million and FYE 2014: £0.8 million) relates to capital recharges.

Included within trade and other payables is a balance of £3.8 million owed to MHE JVCo (FYE 2015: £1.0 million and FYE 2014: £0.8 million).

Included within obligations under finance leases is a balance of £108.7 million owed to MHE JVCo (FYE 2015: £119.5 million and FYE 2014: £130.8 million).

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

DESCRIPTION OF OTHER DEBT

The following descriptions are summaries of certain provisions of the documents listed below governing certain of our debt and does not purport to be complete and is subject to, and qualified in its entirety by reference to, the underlying documents.

Amended and Restated Senior Credit Facility

We entered into a credit facility agreement on 1 July 2014 between, among others, Ocado Holdings Limited, Barclays Bank PLC as facility agent and the Issuer as parent and guarantor, which was amended and restated pursuant to an amendment and restatement agreement dated 29 June 2015 and which will be, subject to customary conditions precedent, including the issue of the Notes, amended and restated pursuant to an amendment and restatement agreement on or about the Issue Date (as amended and restated, the "Amended and Restated Senior Credit Facility Agreement"). The Amended and Restated Senior Credit Facility will comprise a committed sterling revolving credit facility, which may be utilised by way of drawing loans or the issue of letters of credit or bank guarantees. Commitments with respect to the revolving credit facility will equal £100 million. The original borrower under the Amended and Restated Senior Credit Facility is Ocado Holdings Limited. The Amended and Restated Senior Credit Facility Agreement provides for the flexibility of acceding (and subsequently resigning) wholly-owned subsidiaries of the Issuer (subject to certain customary conditions including, in the case of a resignation of a guarantor, the provision of consent by all lenders or resignation being a necessary condition to a disposal of all or most of the issued share capital of that guarantor to a third party in a manner permitted by the Amended and Restated Senior Credit Facility) as additional borrowers and/or additional guarantors.

Purpose

Loans made under the Amended and Restated Senior Credit Facility may be used for the general corporate purposes and working capital purposes of the Group, and the Amended and Restated Senior Credit Facility may also be utilised by way of letters of credit or bank guarantee, reducing the amount available for cash drawings under the Amended and Restated Senior Credit Facility by an amount equivalent to the letters of credit or bank guarantees issued.

Interest and fees

Interest on loans made under the Amended and Restated Senior Credit Facility is payable at a rate of LIBOR, as adjusted periodically (with a zero per cent floor), plus the applicable margin. Save for in circumstances where an event of default has occurred and is continuing, the applicable margin is determined by reference to a net debt ratio of net debt divided by a measure of adjusted EBITDA (as defined in the Amended and Restated Senior Credit Facility), ranging from a maximum of 3.75 per cent. per annum where the net debt ratio is equal to or greater than 3.50 to 1.00 to a minimum of 1.50 per cent. per annum where the net debt ratio is less than 1.00 to 1.00. A similar range is included in the current Revolving Credit Facility.

A commitment fee is payable quarterly in arrear on the available but unused commitments under the Amended and Restated Senior Credit Facility at a rate of 40 per cent. of the applicable margin.

Availability and maturity

The Amended and Restated Senior Credit Facility is available to be drawn until one month prior to the final maturity date. The Amended and Restated Senior Credit Facility has an initial maturity date falling five years after the date of amendment and restatement pursuant to the amendment and restatement agreement.

Prepayment

The Amended and Restated Senior Credit Facility Agreement contains customary provisions for the prepayment and cancellation of a particular lender's commitments in the case of a defaulting lender, additional payments being charged for tax reasons or increased costs.

Subject to certain conditions, the borrowers under the Amended and Restated Senior Credit Facility may voluntarily prepay their utilisations or permanently cancel all or part of the available commitments under the Amended and Restated Senior Credit Facility. Amounts voluntarily prepaid may be re-borrowed during the availability period applicable to the Amended and Restated Senior Credit Facility.

Subject to certain thresholds and other qualifications, there are mandatory prepayments required to be made in respect of the Amended and Restated Senior Credit Facility upon the occurrence of certain events such as change of control of the Issuer or illegality.

Undertakings

The Amended and Restated Senior Credit Facility Agreement contains customary negative undertakings, subject to agreed exceptions, including, but not limited to, restrictions and limitations on:

- creating security;
- acquisitions and entry into joint ventures;
- disposals of assets;
- merger, de-merger or other forms of corporate reconstruction;
- making a substantial change to the general nature of the Group's business;
- distributions to shareholders;
- the incurrence of financial debt or the issuance of guarantees;
- the activities of the Issuer as a holding company;
- sanctions; and
- anti-corruption.

The Amended and Restated Senior Credit Facility Agreement also contains positive undertakings, subject to certain exceptions and including, but not limited to, covenants relating to:

- the maintenance of relevant authorisations;
- compliance with laws;
- guarantor coverage and security (which requires, subject to certain exceptions, that a measure of the aggregate earnings before interest, tax, depreciation and amortisation, aggregate gross assets and aggregate turnover of the guarantors represents not less than 90% of such measure of EBITDA, consolidated gross assets and consolidated turnover of the Group, and further that a first ranking share charge is granted over the shares in any guarantor of the Amended and Restated Senior Credit Facility held by a member of the Group);
- insurance;
- environmental claims and laws;
- further assurance;
- compliance with the persons with significant control regime under Part 21A of the Companies Act 2006; and
- maintenance of the Issuer's listing on the London Stock Exchange.

The Amended and Restated Senior Credit Facility Agreement contains certain reporting requirements, and in particular an obligation to provide audited consolidated annual financial statements, semi-annual consolidated financial statements, and quarterly unaudited consolidated financial statements.

The Amended and Restated Senior Credit Facility Agreement also requires compliance with (i) an interest cover ratio ('EBITDA' to 'Net Interest', each as defined in the Amended and Restated Senior Credit Facility Agreement) and (ii) a net debt ratio ('Net Debt' to 'adjusted EBITDA', each as defined in the Amended and Restated Senior Credit Facility Agreement).

The net debt ratio may not exceed 3.3:1, provided that, if other than in the four consecutive quarters ending immediately prior to the prescribed termination date of the Amended and Restated Senior Credit Facility Agreement, and any quarter in which such termination date occurs, the net debt ratio may exceed 3.3:1 (but may not exceed 3.9:1) in any four test periods (whether or not ending on consecutive quarter dates), provided that Ocado Holdings Limited has given the facility agent prior written notice.

The interest cover ratio may not be less than 3.5:1.

Events of default

The Amended and Restated Senior Credit Facility Agreement contains customary events of default (subject in certain cases to agreed thresholds, grace periods and qualifications), including non-payment, breach of financial covenants, breach of other obligations, misrepresentation, cross-default, insolvency, insolvency proceedings, creditors' process, ownership of obligors, unlawfulness, repudiation, material adverse change, litigation, cessation of business and breach by a party to the Intercreditor Agreement (as defined below) (other than an obligor or a finance party) of the terms of the Intercreditor Agreement. At any time after the occurrence of an event of default which is continuing, the facility agent may, and on the instruction of majority lenders must, cancel the total commitments and/or declare that amounts outstanding are immediately due and payable and/or payable on demand and/or declare that full cash cover is due and payable in respect of any outstanding letter of credit or bank guarantee and/or declare that such full cash cover is payable on demand and/or, subject to the Intercreditor Agreement, exercise or direct the Security Agent to exercise any or all of its rights, remedies, powers or discretions under the finance documents.

Security, guarantee and indemnity

It is intended that the Amended and Restated Senior Credit Facility will be secured by the same Collateral as for the Notes as set out under "*Description of the Notes—Security*."

The provision and the terms of the Collateral will in all cases be subject to certain limitations and are at all times and in all cases subject to the requirements of applicable law and the other matters set out in the Amended and Restated Senior Credit Facility Agreement. Please see "*Risk Factors— Risks Relating To Our Debt Profile, Structure, The Notes And The Collateral—Each Guarantee and security interest will be subject to certain limitations on enforcement and may be limited by applicable law or subject to certain defences that may limit its validity and enforceability.*"

The Amended and Restated Senior Credit Facility will be guaranteed by the Guarantors and the Issuer. Each guarantor under the Amended and Restated Senior Credit Facility Agreement irrevocably and unconditionally jointly and severally:

- guarantees to each finance party punctual performance by each borrower of all that borrower's obligations under the Amended and Restated Senior Credit Facility Agreement and related finance documents;
- undertakes with each finance party that whenever a borrower does not pay any amount when due under or in connection with any finance document relating to the Amended and Restated Senior Credit Facility Agreement, that guarantor shall immediately on demand pay that amount as if it was the principal obligor; and
- agrees with each finance party that if any obligation guaranteed by it is or becomes unenforceable, invalid or illegal, it will indemnify that finance party immediately on demand against any cost, loss or liability incurred by that finance party as a result of a borrower not paying any amount which would have been payable. The amount payable under such indemnity will not exceed the amount such guarantor would have had to pay if that amount claimed had been recoverable on the basis of a guarantee.

Governing law

The Amended and Restated Senior Credit Facility Agreement is governed by and construed and enforced in accordance with English law.

Intercreditor Agreement

The Issuer and Ocado Holdings Limited will enter into an intercreditor agreement (the "Intercreditor Agreement") with, among others, HSBC Corporate Trustee Company (UK) Limited, as Trustee for the Noteholders, Barclays Bank PLC as facility agent under the Amended and Restated Senior Credit Facility, HSBC Corporate Trustee Company (UK) Limited as security agent (the "Security Agent") and the lenders under the Amended and Restated Senior Credit Facility.

The Intercreditor Agreement sets out, among other things:

(A) the relative ranking of certain debt (including debt incurred under the Amended and Restated Senior Credit Facility and the Notes) of the debtors;

(B) the relative ranking of the Transaction Security (as defined below) granted by the Issuer and certain members of the Group;

(C) when payments can be made in respect of certain debt of the Group;

(D) when enforcement action (including acceleration and/or demand for payment and certain similar actions) can be taken in respect of certain debt of the Group;

(E) the order for applying proceeds from the enforcement of security and other amounts received by the Security Agent;

(F) turnover provisions;

(G) the terms of appointment of the Security Agent; and

(H) the rights and obligations of the Hedge Counterparties (as defined below).

The Intercreditor Agreement contains provisions related to future debt permitted by the Indenture that may be incurred by the Group which may be secured by the collateral securing the Notes, subject to the terms of the Intercreditor Agreement and any finance documentation then existing (including the Indenture). The Notes will have equivalent rights to (i) the lenders under the Amended and Restated Senior Credit Facility and (ii) in most circumstances, the hedge counterparties which have acceded to the Intercreditor Agreement (such hedge counterparties being "Hedge Counterparties"), under the Intercreditor Agreement and the Trustee, on behalf of the holders of the Notes, will vote in the same class of creditors as the lenders under the Amended and Restated Senior Credit Facility and the Hedge Counterparties in respect of enforcement (such debt, including debt under the Amended and Restated Senior Credit Facility and certain debt owed to the Hedge Counterparties being the "Pari Passu Debt" and the creditors thereof being the "Pari Passu Creditors").

By accepting a Note, the relevant holder thereof shall be deemed to have agreed to and accepted the terms and conditions of the Intercreditor Agreement.

The following description is a summary of certain provisions contained in the Intercreditor Agreement. It does not restate the Intercreditor Agreement in its entirety and we urge you to read that document because it, and not the discussion that follows, defines certain rights of the holders of the Notes.

Ranking and Priority

The Intercreditor Agreement provides (subject to its detailed terms) that the liabilities owing to the holders of Pari Passu Debt rank pari passu in right and priority of payment between themselves and in priority to all intra-group liabilities (the "Intra-Group Liabilities").

The Intercreditor Agreement does not purport to rank the Intra-Group Liabilities as between themselves.

Guarantees and Security

The Pari Passu Creditors will benefit from a common security package (the "Transaction Security"). The liabilities owing to the Pari Passu Creditors will, to the extent permitted under applicable law, be guaranteed by the same debtors and will be secured by the same Transaction Security.

The Pari Passu Creditors may take, accept or receive the benefit of:

(i) any security in respect of the Pari Passu Debt from any member of the Group in addition to the Transaction Security which, to the extent legally possible, is, at the same time, also offered either:

(a) to the Security Agent as trustee for the other secured parties in respect of the liabilities and obligations owed by such member of the Group to those other secured parties;

(b) in the case of any jurisdiction in which effective security cannot be granted in favour of the Security Agent as trustee for the secured parties:

(I) to the other secured parties in respect of the liabilities and obligations owed by such member of the Group to those other secured parties; or

(II) to the Security Agent under a parallel debt structure for the benefit of the other secured parties,

and (subject to the terms of the Intercreditor Agreement) ranks in the same order of priority as that contemplated under the Intercreditor Agreement; and

(ii) any guarantee, indemnity or other assurance against loss in respect of the Pari Passu Debt from any member of the Group, if and to the extent legally possible at the same time it is also offered to the other secured parties in respect of the liabilities and obligations owed by such member of the Group to those other secured parties and (subject to the terms of the Intercreditor Agreement) it ranks in the same order of priority as that contemplated under the Intercreditor Agreement.

No Transaction Security will become enforceable until the occurrence of an applicable event of default.

Priority of Security

The Transaction Security shall (but only to the extent such Transaction Security is expressed to secure those liabilities and irrespective of the date on which such Transaction Security was created and/or perfected) rank and secure the Pari Passu Debt pari passu and without any preference between them with the proceeds of the Transaction Security to be applied as described under "*—Application of Proceeds*" below.

Restrictions on Payments

Prior to the final discharge date of all Pari Passu Debt, there shall be no restrictions under the Intercreditor Agreement on payments to be made to the Pari Passu Creditors, save that:

(i) the Intercreditor Agreement contains customary provisions regulating payments in respect of hedging liabilities to the Hedge Counterparties; and

(ii) no member of the Group may make payments in respect of the Pari Passu Debt following the occurrence of certain acceleration events, except out of the proceeds of enforcement action taken in accordance with the terms of the Intercreditor Agreement.

Payments of the Intra-Group Liabilities shall be permitted to the extent expressly permitted in the circumstances contemplated by the Intercreditor Agreement.

Entitlement to Enforce Transaction Security

The Pari Passu Creditors shall not have any independent power to enforce, or have recourse to, any of the Transaction Security or to exercise any right, power, authority or discretion arising under the Transaction Security except through the Security Agent. The Security Agent may be instructed to enforce the Transaction Security by the "Majority Pari Passu Creditors" (being, from time to time, those Pari Passu Creditors whose commitments and obligations owed in respect of the Pari Passu Debt aggregate more than 50 per cent. of the total commitments and obligations owed in respect of the Pari Passu Debt at that time.)

Additional Restrictions

The Intercreditor Agreement restricts (among other things) with respect to the Group:

(A) the ability of the Hedge Counterparties to take any enforcement action except for certain specified permitted enforcement actions;

(B) the ability of intra-group debtors to pay, prepay, repay, redeem, defease or discharge or acquire Intra-Group Liabilities except for certain specified permitted payments;

(C) the ability of the intra-group lenders to take any enforcement action except for certain specified permitted enforcement actions; and

(D) the ability of the intra-group lenders to take the benefit of any guarantees or security except under certain specified circumstances.

In addition, the Intercreditor Agreement provides that the Transaction Security and guarantees relating to Pari Passu Debt may be released in certain circumstances described further below in "*—Release of Security and Guarantees—Non-Distressed Disposals*" and "*—Release of Security and Guarantees—Distressed Disposals and Appropriation*". Moreover, certain proceeds received by holders of Pari Passu Debt must be turned over to the Security Agent pursuant to the Intercreditor Agreement for application in accordance with the Intercreditor Agreement. See further below in "*—Turnover*."

Effect of an Insolvency Event

After the occurrence of an insolvency event in relation to any member of the Group, any debtor, intra-group lender, and Pari Passu Creditor entitled to receive a distribution out of the assets of that member of the Group in respect of liabilities owed to it shall, subject to receiving payment instructions and certain other information and to the extent it is able to do so, direct the person responsible for the distribution of the assets of that member of the Group to pay that distribution to the Security Agent until the liabilities owing to the secured parties have been paid in full. To the extent that any member of the Group's liabilities are discharged by way of set-off (mandatory or otherwise), the creditor which benefited from such set-off shall (in the case of a Pari Passu Creditor, only to the extent that such amount constitutes proceeds from the enforcement of the Transaction Security or following the occurrence of an acceleration event in respect of any Pari Passu Debt (except debt owed to the Hedge Counterparties under the relevant hedging agreements)) pay an amount equal to the amount of liabilities owed to it which are discharged by that set-off to the Security Agent (other than in certain circumstances such as discharge of overdraft liabilities, closing out under hedging arrangements, set-off against credit balances held by the Group with a Pari Passu Creditor and other limited exceptions). After the occurrence of an insolvency event in relation to any member of the Group, each debtor, intra-group lender and any Pari Passu Creditor irrevocably authorises the Security Agent (acting in accordance with the terms of the Intercreditor Agreement) to:

(A) take any enforcement action (in accordance with the terms of the Intercreditor Agreement) against that member of the Group;

(B) demand, sue, provide and give receipt for any or all of that member of the Group's liabilities;

(C) collect and receive all distributions on, or on account of, any or all of that member of the Group's liabilities; or

(D) file claims, take proceedings and do all other things the Security Agent considers reasonably necessary to recover that member of the Group's liabilities.

Each of the Pari Passu Creditors and the intra-group lenders shall (a) do all things the Security Agent (acting in accordance with the terms of the Intercreditor Agreement) requests in order to give effect to the above actions and (b) if the Security Agent is not entitled to take any of the above actions or requests that a creditor takes that action, undertake that action itself in accordance with the instructions of the Security Agent (acting in accordance with the terms of the Intercreditor Agreement) or grant a power of attorney to the Security Agent to enable it to take such actions.

Release of Security and Guarantees—Non-Distressed Disposals

The Security Agent shall be permitted to release Transaction Security over any asset if, in respect of a disposal of an asset by a debtor or an asset which is subject to the Transaction Security or in respect of any other transaction:

(A) prior to the discharge date in respect of the Pari Passu Debt, such disposal is not prohibited under the terms of any agreement or instrument in respect of Pari Passu Debt and the Issuer has confirmed to the Security Agent that such disposal is not so prohibited; and

(B) such disposal is not a distressed disposal (as set out more fully in "*—Release of Security and Guarantees—Distressed Disposals and Appropriation*" below).

Release of Security and Guarantees—Permitted Releases

In the event that any Transaction Security is permitted to be released (in whole or in part) pursuant to the terms of any agreement or instrument in respect of Pari Passu Debt, the Security Agent is irrevocably authorised and obliged (at the request, and at the cost, of the relevant debtor or the Issuer and without any consent, sanction, authority or further confirmation from any creditor:

(A) to release such Transaction Security or any other claim in whole or in part to the extent so requested; and

(B) to execute and deliver or to enter into any release of such Transaction Security or any related claim described in (A) above and issue any certificates of non-crystallisation of any floating charge or any consent to dealing that may be considered necessary or desirable or as requested by the relevant debtor or the Issuer.

Release of Security and Guarantees—Distressed Disposals and Appropriation

In relation to the disposal of an asset of a member of the Group or any asset of a non-debtor security provider which is subject to Transaction Security which is (i) being effected at the request of the Majority Pari Passu Creditors in circumstances where the Transaction Security has become enforceable, (ii) being effected by the enforcement of the Transaction Security or (iii) being effected, after the occurrence of an acceleration event or the enforcement of any Transaction Security, by a debtor to a person or persons which is not a member of the Group (a "Distressed Disposal"), the Security Agent is irrevocably authorised (at the cost of the Issuer and without any consent, sanction, authority or further confirmation from any creditor, subordinated creditor or debtor) to:

(A) release the Transaction Security or any other claim over the assets subject to the Distressed Disposal and execute and deliver or enter into any release of that Transaction Security or claim and issue any letters of non-crystallisation of any floating charge or any consent to dealing that may, in the discretion of the Security Agent, be considered necessary or desirable;

(B)

(I) if the asset which is disposed of consists of shares in the capital of a debtor, to release:

(a) that debtor and any subsidiary of that debtor from all or any part of:

(1) its borrowing liabilities;

(2) its guarantee liabilities; and

(3) its other liabilities;

(b) any Transaction Security granted by that debtor or any subsidiary of that debtor over any of its assets; and

(c) any other claim of a creditor in respect of the Intra-Group Liabilities or another debtor over that debtor's assets or over the assets of any subsidiary of that debtor,

on behalf of the relevant creditors and debtors;

(II) if the asset which is subject to a Distressed Disposal consists of shares in the capital of any holding company of a debtor, to release:

(a) that holding company and any subsidiary of that holding company from all or any part of:

(1) its borrowing liabilities;

(2) its guarantee liabilities; and

(3) its other liabilities;

(b) any Transaction Security granted by that holding company and any subsidiary of that holding company over any of its assets; and

(c) any other claim of a creditor in respect of the Intra-Group Liabilities or another debtor over that holding company's assets and the assets of any subsidiary of that holding company,

on behalf of the relevant creditors and debtors;

(III) if the asset which is subject to the Distressed Disposal consists of shares in the capital of a debtor or the holding company of a debtor and the Security Agent is instructed to dispose of all or any part of:

(a) the liabilities; or

(b) debtors' intra-group receivables,

owed by that debtor or holding company or any subsidiary of that debtor or holding company:

(I) (if it is not intended that any transferee of those liabilities or debtors' intra-group receivables (the "Transferee") will be treated as a Pari Passu Creditor or a secured party for the purposes of the Intercreditor Agreement), to execute and deliver or enter into any agreement to dispose of all or part of those liabilities or debtors' intra-group receivables provided that the Transferee shall not be treated as a Pari Passu Creditor or a secured party for the purposes of the Intercreditor Agreement; and

(II) (if it is not intended that any Transferee will be treated as a Pari Passu Creditor or as a secured party for the purposes of the Intercreditor Agreement), to execute and deliver or enter into any agreement to dispose of:

a. all (and not part) of the liabilities owed to the Pari Passu Creditors; and

b. all or part of any other liabilities and the debtors' intra-group receivables,

on behalf of, in each case, the relevant creditors, and debtors;

(IV) if the asset which is subject to the Distressed Disposal consists of shares in the capital of a debtor or the holding company of a debtor (the "Disposed Entity") and the Security Agent is instructed to transfer to another debtor (the "Receiving Entity") all or any part of the Disposed Entity's obligations or any obligations of any subsidiary of that Disposed Entity in respect of:

(a) the Intra-Group Liabilities; or

(b) the debtors' intra-group receivables,

to execute and deliver or enter into any agreement to:

(I) agree to the transfer of all or part of the obligations in respect of those Intra-Group Liabilities or the debtors' intra-group receivables on behalf of the relevant Intra-Group Lenders and debtors to which those obligations are owed and on behalf of the debtors which owe those obligations; and

(II) (provided the Receiving Entity is a holding company of the Disposed Entity) to accept the transfer of all or part of the obligations in respect of those Intra-Group Liabilities or the debtors' intra-group receivables on behalf of the Receiving Entity or Receiving Entities to which the obligations in respect of those Intra-Group Liabilities or the debtors' intra-group receivables are to be transferred.

The net proceeds in connection with the realisation or enforcement (or any transaction in lieu thereof) of any Transaction Security shall be paid to the Security Agent for application as described under "*—Application of Proceeds*" below.

In the case of a Distressed Disposal (or a disposal of liabilities as described in paragraph (b)(iii)(II) above) effected by the Security Agent it is a further condition to any release or disposal described above that the Security Agent shall act in accordance with the terms of the Intercreditor Agreement.

The Security Agent shall not effect any sale or disposal unless the proceeds are in cash except to the extent instructed to do so in accordance with the Intercreditor Agreement's enforcement principles.

Turnover

Subject to certain exclusions, if at any time prior to the final discharge date of the Pari Passu Debt, any Pari Passu Creditor receives or recovers any proceeds of the enforcement of the Transaction Security except in accordance with the enforcement proceeds waterfall described below under "*—Application of Proceeds*"; that Pari Passu Creditor will:

(A) in relation to any amount recovered by way of set off promptly pay an amount equal to the recovery to the Security Agent for application in accordance with the terms of the Intercreditor Agreement; or

(B) in relation to any amount not recovered by way of set-off, hold an amount of that receipt or recovery equal to the relevant liabilities (or if less, the amount received or recovered) on trust for the Security Agent and promptly pay that amount, along with an amount equal to the amount (if any) by which the receipt or recovery exceeds those liabilities, to the Security Agent for application in accordance with the terms of the Intercreditor Agreement.

Subject to certain exclusions, if at any time prior to the final discharge date of the Pari Passu Debt, any creditor other than a Pari Passu Creditor receives or recovers:

(A) any amount which is not a permitted payment or made in accordance with the enforcement proceeds waterfall described below under "*—Application Proceeds*";

(B) any amount by way of set off in respect of any of the liabilities owed to it which does not give effect to a permitted payment (other than where such payments are not required to be made, as set out under "*—Effect of Insolvency Event*");

(C) any amount on account of, or in relation to, or by way of set off in respect of any liabilities after an acceleration of Pari Passu Debt or enforcement of the Transaction Security or as a result of any litigation or other proceeding against a member of the Group (other than after the occurrence of an insolvency event in respect of such member of the Group) other than where not required as set out under "*—Effect of Insolvency Event*", or in accordance with the enforcement proceeds waterfall described below under "*—Application of Proceeds*";

(D) the proceeds of any enforcement of any Transaction Security other than in accordance with the enforcement proceeds waterfall described below under "*—Application of Proceeds*"; or

(E) any distribution in cash or in kind or payment of, or on account of or in relation to, any of the liabilities owed by any member of the Group, in each case where such payment is not made in accordance with the enforcement proceeds waterfall described below under "*—Application of Proceeds*" and which is made as a result of, or after the occurrence of, an insolvency event in respect of that member of the Group,

then that creditor will (a) in relation to receipts and recoveries not received or recovered by way of set-off hold an amount of that receipt or recovery equal to the relevant liabilities (or if less, the amount received or recovered) on trust for the Security Agent and promptly pay that amount, along with an amount equal to the amount (if any) by which the receipt or recovery exceeds those liabilities, to the Security Agent for application in accordance with the terms of the Intercreditor Agreement and (b) in relation to receipts and recoveries received or recovered by way of set-off promptly pay an amount equal to that receipt or recovery to the Security Agent for application in accordance with the terms of the Intercreditor Agreement.

Application of Proceeds

Subject to certain exceptions, all amounts from time to time received or recovered by the Security Agent pursuant to the terms of any debt document or in connection with the realisation or enforcement of all or any part of the Transaction Security shall be held by the Security Agent on trust and applied in the following order of priority:

(A) first, pro rata and pari passu to each representative, agent and/or trustee of Pari Passu Debt (including the Trustee) and the Security Agent (including any receiver or delegate thereof) in respect of their costs and expenses and any other amounts due and payable to them at such time;

(B) second, to each Pari Passu Creditor to discharge all costs and expenses incurred by such Pari Passu Creditors in connection with any realisation or enforcement of the Transaction Security taken in accordance with the terms of the Intercreditor Agreement or any action taken at the request of the Security Agent;

(C) third, pro rata and pari passu to

(I) the creditor representatives in respect of any Pari Passu Debt on its own behalf and on behalf of the Pari Passu Creditors for which it is the creditor representative; and

(II) the Hedge Counterparties

(D) third, to any person to whom the Security Agent is obliged to pay in priority to any debtor; and

(E) fourth, the balance, if any, in payment to the relevant debtor.

Consultation and Enforcement of Transaction Security

The Security Agent may refrain from enforcing the Transaction Security unless instructed otherwise by the Majority Pari Passu Creditors.

Subject to the Transaction Security having become enforceable in accordance with its terms, the Majority Pari Passu Creditors may give or refrain from giving instructions to the Security Agent to enforce or refrain from enforcing the Transaction Security as it sees fit.

MHE Sale and Leaseback

On 25 July 2013, Ocado Limited (subsequently known as Ocado Retail Limited) and MHE JVCo entered into an English law governed MHE purchase agreement with respect to the mechanical handling plant and equipment and certain other related assets and equipment located at the Dordon CFC (the "Dordon MHE"), pursuant to which MHE JVCo purchased the Dordon MHE. On 25 July 2013, Ocado Limited (subsequently known as Ocado Retail Limited) and MHE JVCo entered into an English law governed MHE lease agreement with respect to the Dordon MHE (the "Dordon MHE Lease Agreement"). Pursuant to a group restructuring in 2014, this lease agreement was novated to Ocado Operating Limited.

Pursuant to the Dordon MHE Lease Agreement, MHE JVCo leases the Dordon MHE to Ocado Operating Limited for a specified lease fee. As at 30 April 2017, the principal amount outstanding on the finance lease payable under the Dordon MHE Lease Agreement is £108.1 million.

The Dordon MHE Lease Agreement includes various covenants, including without limitation with respect to Dordon MHE and access to the Dordon CFC, and events of default, including without limitation breach of agreement.

The Dordon MHE Lease Agreement includes provisions relating to termination, including in relation to a change of control of MHE JVCo.

Finance Leases

Certain members of the Group (predominantly Ocado Operating Limited and Ocado Retail Limited) have either as principal or guarantor entered into certain finance lease arrangements, including without limitation with:

- Bank of London and the Middle East PLC;
- Barclays Mercantile Business Finance Limited;
- Hitachi Capital Vehicle Solutions Ltd;
- HSBC Equipment Finance (U.K.) Limited;
- Mercedes-Benz Financial Services U.K. Limited;
- Santander Asset Finance plc; and
- Scania Finance Great Britain Limited.

The following summarises certain aspects of such agreements but not all the agreements are the same and accordingly the foregoing is an indicative general description that reflects common terms.

Generally, these arrangements provide for the provision or procurement of assets, including vehicles, by the agreement counterparty, in return for periodic payments. Further amounts may be due in certain circumstances. The agreement counterparty may also offer to provide ancillary services in connection with the asset, such as maintenance and roadside assistance.

Covenants and Undertakings

The agreements governing these arrangements variously contain certain covenants and undertakings, in each case subject to various exceptions, limitations, grace periods and remedy provisions, including, without limitation, with respect to:

- the sale, assignment, letting or other disposition of the asset;
- keeping or maintaining the asset in a specified condition;
- restrictions, conditions or prohibitions on the location, marking, usage or operation of the asset;
- licenses, permissions or permits;
- compliance with law and industry standards;
- restrictions on alteration of the asset or related information (such as registration numbers);
- prohibitions, limitations or restrictions on encumbering the asset;
- payment of charges, taxes, fees or penalties;
- the provision of information or notice;
- access to property or the asset; and
- insurance.

In addition, the agreements covering these arrangements variously contain certain provisions relating to indemnities, costs and expenses and the apportionment of liability.

Default and / or Termination

The agreements governing these arrangements variously contain certain provisions relating to the circumstances under which the Group member party to the arrangement may be in breach (which may permit termination or the declaration of default), provide cause to terminate, or be able to terminate, such arrangement, and further relating to the circumstances in which either party may terminate. These include, without limitation:

- by way of notice;
- failure to pay;
- breach of other obligation;
- breach of representation or warranty;
- insolvency;
- insolvency proceedings;
- creditors' process;
- cessation of business (variously including whether actual or threatened);
- change of control or change in shareholding;
- repudiation;
- breach of usage or operating restrictions, conditions or limitations; and
- certain matters affecting the asset, such as being in jeopardy or being declared a total loss.

As at 30 April 2017, the finance lease obligations outstanding in connection to vehicle finance was £41.8 million and the finance lease obligations outstanding in connection to other asset finance was £6.6 million.

DESCRIPTION OF THE NOTES

In this "*Description of the Notes*," the word "Issuer" refers only to Ocado Group plc and not to any of its Subsidiaries, except for the purposes of financial data determined on a consolidated basis. The word "Notes," unless the context requires otherwise, also refers to "book entry interests" in the Notes, as defined herein. The definitions of certain other terms used in this description are set forth throughout the text or under "—Certain Definitions."

The Issuer will issue £250 million aggregate principal amount of 4.00% Senior Secured Notes due 2024 (the "Notes") under an indenture dated on or about 19 June 2017 (the "Indenture") between, among others, the Issuer, the Guarantors, HSBC Corporate Trustee Company (UK) Limited, as trustee (the "Trustee") and HSBC Corporate Trustee Company (UK) Limited, as security agent (the "Security Agent"), in private transactions that are not subject to the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"). The terms of the Notes include those set forth in the Indenture.

The Indenture is unlimited in aggregate principal amount, of which £250 million aggregate principal amount of Notes will be issued in this Offering (the "Initial Notes"). We may in the future, subject to applicable law, issue an unlimited principal amount of additional Notes (as defined below). We will only be permitted to issue Additional Notes in compliance with the covenants contained in the Indenture, including the covenant restricting the Incurrence of Debt (as described below under "*—Certain Covenants—Limitation on Debt*"). The Notes and any Additional Notes will be treated as a single class for all purposes under the Indenture, including, without limitation, with respect to waivers, amendments, redemptions and offers to purchase, except as otherwise provided for in the Indenture.

The following description is a summary of the material terms of the Indenture. It does not, however, restate the Indenture in its entirety and where reference is made to a particular provision of the Indenture, such reference, including the definitions of certain terms, is qualified in its entirety by reference to all of the provisions of the Notes and the Indenture. You should read the Indenture, the Notes, the Security Documents and the Intercreditor Agreement because they contain additional information and because they and not this description define your rights as a Holder of the Notes. Copies of the Indenture, the Security Documents and the Intercreditor Agreement may be obtained from the Issuer at the address indicated under "*Listing and General Information*." The Indenture is not qualified under, does not incorporate provisions by reference to, and is not otherwise subject to, the U.S. Trust Indenture Act of 1939, as amended , including Section 316(b) thereof.

The Issuer has made an application to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on the Global Exchange Market (the "Exchange"). The Issuer can provide no assurance that this application will be accepted. See "*—Payments on the Notes; Paying Agent, Transfer Agent and Registrar*."

The registered Holder of a Note will be treated as the owner of it for all purposes. Only registered Holders will have rights under the Indenture.

Each reference to a legal entity herein shall be deemed to include such entity's successor in interest, unless the context requires otherwise.

Brief Description of the Structure and Ranking of the Notes and the Guarantees

The Notes

The Notes:

(a) are the Issuer's general secured obligations;

(b) mature on 15 June 2024;

(c) rank *pari passu* in right of payment with all of the Issuer's existing and future debt that is not subordinated in right of payment to the Notes;

(d) rank senior in right of payment to any existing and future debt of the Issuer that is expressly subordinated in right of payment to the Notes;

(e) are effectively subordinated to any existing and future debt of the Issuer that is secured by Liens on property or assets that do not secure the Notes, to the extent of the value of such property or assets so securing such debt;

(f) are secured by the Collateral as set forth below under the caption "*—Security*" on a first-priority basis along with obligations under the Amended and Restated Senior Credit Facility and certain Hedging Obligations, if any;

(g) are structurally subordinated to all existing and future debt of Subsidiaries of the Issuer that do not provide Guarantees; and

(h) are guaranteed on a senior basis by the Guarantors.

The Guarantees

The Notes will initially be guaranteed by each of the Initial Guarantors, those being Ocado Retail Limited, Ocado Operating Limited, Ocado Central Services Limited, Ocado Innovation Limited, Ocado Holdings Limited, Ocado International Holdings Limited, Marie Claire Beauty Limited and Speciality Stores Limited.

Each Guarantee:

(a) is a senior secured obligation of the Guarantor that granted such Guarantee;

(b) ranks *pari passu* in right of payment with all of such Guarantor's existing and future debt that is not subordinated in right of payment to such Guarantee;

(c) ranks senior in right of payment to any existing and future debt of such Guarantor that is expressly subordinated in right of payment to such Guarantee;

(d) is effectively subordinated to any existing and future debt of such Guarantor that is secured by Liens on property or assets that do not secure such Guarantee, to the extent of the value of such property or assets so securing such debt;

(e) is secured by the Collateral as set forth below under the caption *"—Security*" on a first-priority basis along with on a first-priority basis along with obligations under the Amended and Restated Senior Credit Facility and certain Hedging Obligations, if any; and

(f) is effectively senior in right of payment to any existing and future unsecured Debt of such Guarantor, to the extent of the value of the Collateral that is available to satisfy the obligations under such Guarantee.

General

Not all of the Issuer's direct and indirect Subsidiaries will guarantee the Notes. The Issuer is a Holding Company for the operating companies in the Group and is accordingly dependent on cash flows from its Subsidiaries to meet its obligations under the Notes. See "*Risk Factors—The Issuer and certain of the Guarantors are holding companies that have no revenue generating operations of their own and will depend on cash from the operating companies of the Group to be able to make payments on the Notes or the Guarantees*".

As at 30 April 2017, after giving effect to the Offering and the use of proceeds therefrom, total borrowings of the Issuer and Guarantors, on the one hand and the non-guarantor subsidiaries, on the other, would have been £295.3 million and £nil, respectively.

The Guarantors represented, after taking intercompany eliminations into account, £88.1 million, or 115.3%, of our Adjusted EBITDA and £248.1 million, or 94.6%, of our net assets for the 52 weeks ended, or as at, 27 November 2016.

The Notes are effectively subordinated in right of payment to all Debt and other liabilities and commitments (including trade payables and lease obligations) of the Issuer's Subsidiaries that are not Guarantors. Any right of the Issuer to receive assets of any of its Subsidiaries upon the Subsidiary's liquidation or reorganization (and the consequent right of the Holders to participate in those assets) will be effectively subordinated to the claims of that Subsidiary's creditors, except to the extent that the

Issuer is itself recognized as a creditor of the Subsidiary, in which case the claims of the Issuer would still be subordinated in right of payment to any security over the assets of the Subsidiary and any Debt of the Subsidiary senior to that held by the Issuer.

As at the Issue Date, all of the Issuer's Subsidiaries (except for Atlas Insurance PCC Limited, which will not be a Restricted Subsidiary) and MHE JVCo will be "Restricted Subsidiaries". Under the circumstances described below under "*—Certain Covenants—Designation of Unrestricted and Restricted Subsidiaries*," the Issuer will be permitted to designate certain of its Subsidiaries or MHE JVCo as "Unrestricted Subsidiaries." Unrestricted Subsidiaries of the Issuer will not be subject to the restrictive covenants in the Indenture. Further, Unrestricted Subsidiaries of the Issuer will not Guarantee the Notes.

Although the Indenture contains limitations on the amount of additional Debt that the Issuer, the Guarantors and the Restricted Subsidiaries may incur, the amount of such additional Debt could be substantial. The Indenture will permit additional Debt to be secured.

The Indenture will provide that the Security Agent and the Trustee will be authorised (without any further consent of the holders of the Notes) to enter into the Intercreditor Agreement to give effect to the provisions described under the section entitled "*Description of Other Debt—Intercreditor Agreement*."

Principal, Maturity and Interest

The Notes will mature on 15 June 2024 unless redeemed prior thereto as described herein. The redemption price at maturity will be 100.0% of the principal amount. The Issuer will issue the Notes in the aggregate principal amount of £250 million. Each Note will bear interest at a rate per annum of 4.000% and interest will be payable semi-annually on 15 June and 15 December of each year, commencing on 15 December 2017. Interest will be payable to Holders of record on each Note in respect of the principal amount thereof outstanding as at the immediately preceding 1 June or 1 December, as the case may be. If the due date for any payment in respect of the Notes is not a Business Day at the place where such payment is due to be paid, the Holder thereof will not be entitled to payment of the amount until the next succeeding Business Day at such place, and will not be entitled to any further interest or other payment as a result of such delay. The rights of Holders in beneficial interest of the Notes to receive the payments on such Notes are subject to applicable procedures or Euroclear and/or Clearstream.

Interest on the Notes will accrue from, and including, the original issuance date or, if interest has already been paid, from the date it was most recently paid. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

From time to time, subject to the Issuer's compliance with the covenants contained in the Indenture, including the covenants restricting the incurrence of Debt (as described below under "*—Certain Covenants—Limitation on Debt*"), the Issuer is permitted to issue one or more series of additional Notes, which shall have terms substantially identical to the Notes except in respect of any of the following terms which shall be set forth in an Officer's Certificate supplied to the Trustee (the "Additional Notes"):

(a) the title of such Additional Notes;

(b) the aggregate principal amount of such Additional Notes;

(c) the date or dates on which such Additional Notes will be issued;

(d) the rate or rates (which may be fixed or floating) at which such Additional Notes shall bear interest and, if applicable, the interest rate basis, formula or other method of determining such interest rate or rates, the date or dates from which such interest shall accrue, the interest payment dates on which such interest shall be payable or the method by which such dates will be determined, the record dates for the determination of Holders thereof to whom such interest is payable and the basis upon which such interest will be calculated;

(e) the currency or currencies in which such Additional Notes shall be denominated and the currency in which cash or government obligations in connection with such series of Additional Notes may be payable;

(f) the date or dates and price or prices at which, the period or periods within which, and the terms and conditions upon which, such Additional Notes may be redeemed, in whole or in part;

(g) if other than denominations of £100,000 and in integral multiples of £1,000 in excess thereof, the denominations in which such Additional Notes shall be issued and redeemed; and

(h) the ISIN, Common Code, CUSIP or other securities identification numbers with respect to such Additional Notes.

Such Additional Notes will be treated, along with all other series of Notes, as a single class for the purposes of the Indenture with respect to waivers, amendments and all other matters which are not specifically distinguished for such series, except as otherwise provided for in the Indenture. Unless the context otherwise requires, for all purposes of the Indenture and this "*Description of the Notes*," references to "*Notes*" shall be deemed to include references to the Initial Notes as well as any Additional Notes. Additional Notes may also be designated to be of the same series as the Initial Notes, but only if they have terms substantially identical in all material respects to the Initial Notes, and, for all purposes other than U.S. federal income tax purposes, shall be deemed to form one series therewith, and references to the "*Notes*" shall be deemed to refer to the Initial Notes as well as any Additional Notes. In the event that any Additional Notes are not fungible with any Notes previously issued for U.S. federal income tax purposes, such non-fungible Additional Notes shall be issued with a separate ISIN, Common Code, CUSIP or other securities identification number, as applicable, so that they are distinguishable from such previously issued Notes.

Form of Notes

The Notes will be issued only in fully registered form without coupons and only in denominations of £100,000 and integral multiples of £1,000 in excess thereof.

Notes sold within the United States to qualified institutional buyers pursuant to Rule 144A under the U.S. Securities Act ("Rule 144A") will initially be represented by one or more global Notes in registered form without interest coupons attached (the "144A Global Notes"), and Notes sold outside the United States pursuant to Regulation S under the U.S. Securities Act ("Regulation S") will initially be represented by one or more global Notes in registered form without interest coupons attached (the "Reg S Global Notes" and, together with the 144A Global Notes, the "Global Notes").

During the 40-day "distribution compliance period" (as such term is defined in Rule 902 of Regulation S), book-entry interests in the Reg S Global Notes may be transferred only to non-U.S. Persons under Regulation S or to persons whom the transferor reasonably believes are "qualified institutional buyers" within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A or otherwise in accordance with applicable transfer restrictions and any applicable securities laws of any state of the United States or any other jurisdiction. The Notes will be subject to certain other restrictions on transfer and certification requirements, as described under "*Notice to Investors*."

The Global Note will be deposited with a common depositary for Euroclear and Clearstream and registered in the name of the nominee of such common depositary. Ownership of interests in the Global Note, referred to in this description as "book-entry interests," will be limited to persons that have accounts with Euroclear or Clearstream or their respective participants.

The terms of the Indenture will provide for the issuance of Definitive Registered Notes in certain limited circumstances.

See "*Book-Entry; Delivery and Form*."

Transfer

The Notes will be subject to certain restrictions on transfer and certification requirements, as described under "*Notice to Investors*."

A Holder may transfer or exchange Notes in accordance with the Indenture and the procedures of Euroclear and Clearstream. Upon any transfer or exchange, the Issuer, the Registrar and the Trustee may require a Holder, among other things, to furnish appropriate endorsements and transfer documents and the Issuer may require a Holder to pay any taxes or other governmental charges payable in connection with the transfer or exchange. The Issuer will not be required to transfer or exchange any Note selected for redemption or repurchase or to transfer or exchange any Note for a period of 15 Business Days prior to any date on which all or any part of the Notes are to be redeemed or repurchased. The Notes will be issued in registered form and the Holder will be treated as the owner of such Note for all purposes. For further information about transfer and exchange procedures, see the section titled "*Book-Entry; Delivery and Form*".

Book-entry interests in the 144A Global Notes, or the "Rule 144A Book-Entry Interest", may be transferred to a person who takes delivery in the form of book-entry interests in the Reg S Global Note, as applicable, or the "Reg S Book-Entry Interests", only upon delivery by the transferor of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made in accordance with Regulation S.

Any book-entry interest that is transferred as described in the immediately preceding paragraph will, upon transfer, cease to be a book-entry interest in the Global Note from which it was transferred and will become a book-entry interest in the Global Note to which it was transferred. Accordingly, from and after such transfer, it will become subject to all transfer restrictions, if any, and other procedures applicable to book-entry interests in the Global Note to which it was transferred.

All transfers of book-entry interests between participants in Euroclear or Clearstream will be effected by Euroclear or Clearstream pursuant to customary procedures and subject to applicable rules and procedures established by Euroclear or Clearstream and their respective participants. See "*Book-Entry; Delivery and Form*."

Payments on the Notes; Paying Agent, Transfer Agent and Registrar

The Issuer will make all payments, including principal of, premium, if any, and interest on the Notes, at its office or through its agent in London, England that it will maintain for these purposes. Initially, that agent will be HSBC Bank plc (the "Paying Agent"). The Issuer may change the Paying Agent without prior notice to the Holders. The Issuer will make all payments in same-day funds.

The Issuer will also maintain a registrar (the "Registrar") and a transfer agent (the "Transfer Agent"). The initial Registrar will be HSBC Bank plc and the initial Transfer Agent will be HSBC Bank plc. The Registrar will maintain a register reflecting ownership of the Notes outstanding from time to time, if any, and together with the Transfer Agent, will facilitate transfers of the Notes on behalf of the Issuer. A register of the Notes shall be left at the registered office of the Issuer. In case of inconsistency between the register of Notes kept by the Registrar and the one kept by the Issuer at its registered office, the register kept by the Issuer shall prevail.

The Issuer may change any Paying Agent, Registrar or Transfer Agent for the Notes without prior notice to the Holders of such Notes. However, for so long as the Notes are listed on the Irish Stock Exchange and the rules of the Exchange so require, the Issuer will publish notice of any change of Paying Agent, Registrar or Transfer Agent on the official website of the Irish Stock Exchange (www.ise.ie), to the extent and in the manner required by the rules of the Exchange. Such notices may instead be published in a daily newspaper with general circulation in Ireland (which is expected to be the Irish Times) or if, in the opinion of the Issuer such publication is not practicable, in an English language newspaper having general circulation in Europe. In addition, for so long as any Notes are represented by Global Notes, such notices to Holders of the Notes may be delivered by or on behalf of the Issuer to Euroclear and Clearstream.

Holders will not be responsible for any service charge for any registration of transfer, exchange or redemption of the Notes, but the Issuer may require payment of a sum sufficient to cover any transfer tax or similar governmental charge payable in connection with any such registration of transfer or exchange.

Guarantees

General

The Notes will initially be guaranteed by the Initial Guarantors. Under the Indenture, the Guarantors will jointly and severally agree to guarantee the due and punctual payment of all amounts payable under the Notes, including principal, premium, if any, and interest payable under the Notes.

Not all of the Subsidiaries of the Issuer will guarantee the Notes. In the event of a bankruptcy, liquidation or reorganisation of any of these non-guarantor Subsidiaries, the non-guarantor Subsidiaries will pay the holders of their debt and their trade creditors before they will be able to distribute any of their assets to the Issuer or another Subsidiary of the Issuer. Each Guarantor that makes a payment or distribution under its Guarantee will be entitled to contribution from any other Guarantor, subject to the terms of the Intercreditor Agreement.

Release of the Guarantees

A Guarantee will be automatically and unconditionally released (and thereupon will terminate and be discharged and be of no further force and effect):

(1) upon the sale or disposition (including through merger, consolidation, amalgamation or other combination) or conveyance, transfer or lease of the Capital Stock, or all or substantially all of the assets, of the Guarantor (or a Holding Company thereof) to a Person that is not (either before or after giving effect to the transaction) the Issuer or a Restricted Subsidiary, if such sale or other disposition does not violate the covenants described under the caption "*—Certain Covenants—Limitation on Asset Sales*" or "*—Certain Covenants—Merger, Consolidation or Sale of Assets*");

(2) in connection with any sale or other disposition of the Capital Stock of the Guarantor (or Capital Stock of any Holding Company of such Guarantor (other than the Issuer)) (whether by direct sale or through a Holding Company) to a Person that is not (either before or after giving effect to such transaction) the Issuer or a Restricted Subsidiary, if the sale or other disposition does not violate the provisions set forth below under "*—Certain Covenants—Limitation on Asset Sales*" and as a result of such disposition such Guarantor no longer qualifies as a Subsidiary of the Issuer;

(3) upon a defeasance or satisfaction and discharge of the Indenture that complies with the provisions under "*—Defeasance*" or "*—Satisfaction and Discharge*;"

(4) upon the designation by the Issuer of the Guarantor (or a Holding Company thereof) as an Unrestricted Subsidiary in compliance with the terms of the Indenture;

(5) upon the liquidation or dissolution of the Guarantor; *provided* that no Default or Event of Default has occurred and is continuing;

(6) in accordance with the Intercreditor Agreement or any Additional Intercreditor Agreement;

(7) upon repayment in full of the Notes;

(8) in the case of any Restricted Subsidiary that after the Issue Date is required to guarantee the Notes pursuant to the covenant described under the caption "*—Certain Covenants—Limitation on Guarantees of Debt and Security by Restricted Subsidiaries*", the release or discharge of the guarantee by such Restricted Subsidiary which resulted in the obligation to guarantee the Notes; or

(9) as described under "*—Amendments and Waivers*."

Upon any occurrence giving rise to a release of a Guarantee as specified above, the Trustee will execute, subject to the receipt of certain Officer's Certificates from the Issuer, any documents reasonably required in order to evidence or effect such release, discharge and termination in respect of such Guarantee. Neither the Issuer nor any Guarantor will be required to make a notation on the Notes to reflect any such Guarantee or any such release, termination or discharge. Each of the releases and amendments set forth above shall be effected by the Trustee without any consent of the Holders or any other action or consent on the part of the Trustee.

Limitations on the value of the Guarantees

The obligations of each Guarantor under its Guarantee will be limited to an amount not to exceed the maximum amount that can be guaranteed by such Guarantor by law or without resulting in its obligations under its Guarantee being voidable or unenforceable under applicable laws relating to maintenance of share capital, fraudulent transfer, fraudulent conveyance, corporate benefit or similar laws affecting the rights of creditors generally and applicable to the Guarantors and their respective shareholders, directors and officers. By virtue of these limitations, a Guarantor's obligation under its Guarantee could be significantly less than amounts payable with respect to the Notes, or a Guarantor may have effectively no obligation under its Guarantee. See "*Risk Factors—Risks Relating to Our Debt Profile, Structure, the Notes and the Collateral—Each Guarantee and security interest will be subject to certain limitations on enforcement and may be limited by applicable law or subject to certain defences that may limit its validity and enforceability*" and "*Risk Factors—Risks Relating to Our Debt Profile, Structure, the Notes and the Collateral—Enforcing your rights as a holder of the Notes may prove difficult*".

Additional Amounts

All payments made under or with respect to the Notes or the Guarantees will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, levies, imposts, assessments or similar governmental charges of whatever nature (collectively, "Taxes") imposed or levied by or on behalf of any jurisdiction in which the Issuer or any Guarantor is organised, engaged in significant operations or resident for tax purposes, or from or through which payment on the Notes is made, or any political subdivision or authority thereof or therein, having the power to tax (each, a "Relevant Taxing Jurisdiction"), unless the withholding or deduction of such Taxes is required by law. In the event that the Issuer or a Guarantor is required to so withhold or deduct any amount for or on account of any such Taxes imposed or levied by or on behalf of a Relevant Taxing Jurisdiction from any payment made under or with respect to the Notes, the Issuer or Guarantor, as the case may be, will pay such additional amounts ("Additional Amounts") as may be necessary so that the net amount received by each Holder of the Notes after such withholding or deduction will be not less than the amount that such Holder would have received if such Taxes had not been required to be withheld or deducted.

Notwithstanding the foregoing, neither the Issuer nor any Guarantor will pay Additional Amounts to a Holder of any Note in respect or on account of:

(a) any Taxes that are imposed or levied by a Relevant Taxing Jurisdiction by reason of a present or former connection of the Holder or beneficial owner (in the case of a Note held in global form, only if such beneficial owner is reasonably identifiable) with such Relevant Taxing Jurisdiction (including, but not limited to, citizenship, nationality, residence, domicile, or existence of a business, a permanent establishment, a place of business or a place of management present or deemed present within the Relevant Taxing Jurisdiction) other than the mere receipt or holding of any Note or by reason of the receipt of payments thereunder or the exercise or enforcement of rights under such Note, any Guarantee or the Indenture;

(b) any Taxes that are imposed or withheld by reason of the failure of the Holder or beneficial owner (in the case of a Note held in global form, only if such beneficial owner is reasonably identifiable) of any Note, to comply with the Issuer's written request addressed to the Holder, providing at least 30 calendar days' notice, to satisfy any certification, identification, information or other reporting requirements concerning nationality, residence, identity or connection with the Relevant Taxing Jurisdiction which the Holder or such beneficial owner is legally required to satisfy, whether imposed by statute, treaty, regulation or administrative practice, in each such case by the Relevant Taxing Jurisdiction, as a precondition to exemption from, or reduction in the rate of deduction or withholding of, Taxes imposed by the Relevant Taxing Jurisdiction (including, without limitation, a certification that the Holder or beneficial owner is not resident in the Relevant Taxing Jurisdiction);

(c) any estate, inheritance, gift, sales, personal property or similar Taxes;

(d) any Tax that is payable other than by deduction or withholding from payments made under or with respect to any Note or Guarantee;

(e) any Tax which would not have been so imposed but for the presentation (where presentation is required in order to receive payment) by the Holder for payment on a date more than

30 days after the date on which such payment becomes due and payable or the date on which payment thereof is duly provided for, whichever occurs later, except to the extent that the Holder would have been entitled to such Additional Amounts on presenting the same for payment on any day (including the last day) within such 30-day period; or

(f) any withholding or deduction required to be made from a payment pursuant to Sections 1471–1474 of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), as of the issue date (or any amended or successor version that is substantively comparable and not materially more onerous to comply with), any current or future regulations or official interpretations thereof, any similar law or regulation adopted pursuant to an intergovernmental agreement between a non-U.S. jurisdiction and the United States with respect to the foregoing or any agreements entered into pursuant to Section 1471(b)(1) of the Code.

In addition, Additional Amounts will not be payable with respect to any Taxes that are imposed in respect of any combination of the above items.

The Issuer or Guarantors will also make or cause to be made such withholding or deduction of Taxes and remit the full amount of Taxes so deducted or withheld to the relevant taxing authority in accordance with all applicable laws. The Issuer will, upon request, make available to the Holders, as soon as reasonably practicable, certified copies of tax receipts evidencing such payment by the Issuer or if, notwithstanding the Issuer's reasonable efforts to obtain such receipts, the same are not obtainable, other evidence reasonably satisfactory to the Trustee of such payment by the Issuer.

At least 30 calendar days prior to each date on which any payment under or with respect to the Notes is due and payable, if the Issuer or a Guarantor will be obliged to pay Additional Amounts with respect to such payment (unless such obligation to pay Additional Amounts arises after the 30th day prior to the date on which payment under or with respect to the Notes is due and payable, in which case it will be promptly thereafter), the Issuer or Guarantor will deliver to the Trustee and the Paying Agent an Officer's Certificate stating that such Additional Amounts will be payable and the amounts so payable and setting forth such other information as is necessary to enable the Trustee or Paying Agent to pay such Additional Amounts to the Holders on the payment date. The Trustee and the Paying Agent shall be entitled to rely solely on such Officer's Certificate as conclusive proof that such payments are necessary.

In addition, the Issuer or the Guarantors will pay (i) any present or future stamp, issue, registration, transfer, documentation, court, excise or other similar taxes, charges and duties, including interest or penalties with respect thereto imposed or levied by any Relevant Taxing Jurisdiction, in respect of the execution, issue, delivery or registration of the Notes, the Indenture or the Guarantees, or any other document or instrument referred to thereunder (other than transfers of the Notes following the initial resale of the Notes by the Initial Purchasers); and (ii) any such taxes, charges or duties imposed by any Relevant Taxing Jurisdiction as a result of, or in connection with, the enforcement of the Notes, Guarantees or any other such document or instrument following the occurrence of any Event of Default with respect to the Notes.

The foregoing provisions will survive any termination, defeasance or discharge of the Indenture and will apply *mutatis mutandis* to any jurisdiction in which any Surviving Entity (as defined below) or successor person to the Issuer or a Guarantor is organised, engaged in significant operations or resident for tax purposes or any political subdivision or taxing authority or agency thereof or therein.

Whenever in the Indenture or this "*Description of the Notes*" there is mentioned, in any context, the payment of principal (and premiums, if any), Redemption Price, interest or any other amount payable under or with respect to any Note (including payments thereof made pursuant to any Guarantee), such mention will be deemed to include mention of the payment of Additional Amounts.

Security

General

The Notes and the Guarantees will be secured by the Collateral, which, on or about the Issue Date, will consist solely of first-ranking share charges over all of the issued ordinary share capital of each Guarantor, except for two class A ordinary shares of Marie Claire Beauty Limited that are not held by the Issuer or any of its Subsidiaries (the "Share Charges").

Any other additional security interests that may in the future be created to secure obligations under the Notes and the Indenture would also constitute Collateral.

The Collateral will also secure the liabilities under the Amended and Restated Senior Credit Facility and may secure certain Hedging Obligations, if any, and certain other future indebtedness (including any Additional Notes). Pursuant to the terms of the Intercreditor Agreement, any proceeds received upon any enforcement over any Collateral, will be applied *pro rata* in payment of all liabilities in respect of obligations under the Amended and Restated Senior Credit Facility, such Hedging Obligations (if any), the Indenture and the Notes (including any Additional Notes) and any other Debt of the Issuer or the Restricted Subsidiaries permitted to be incurred and secured by the Collateral on a *pari passu* basis pursuant to the Indenture and the Intercreditor Agreement. No appraisals of the Collateral have been made in connection with this offering of the Notes. By its nature, some or all of the Collateral will be illiquid and may have no readily ascertainable market value. Accordingly, the Collateral may not be able to be sold in a short period of time, or at all. See "*Risk Factors—Risks Relating to Our Debt Profile, Structure, the Notes and the Collateral*".

Security Documents

Subject to the terms of, and limitations under, the Security Documents, the Share Charges will secure the payment and performance when due of the obligations of the Issuer and the Guarantors under the Indenture and the Notes, the Amended and Restated Senior Credit Facility, certain Hedging Obligations (if any) and certain other future indebtedness.

So long as no enforcement has occurred and is continuing, and subject to certain terms and conditions, each chargor will be entitled to maintain possession and exclusive control of, and to receive all cash dividends, interest and other payments made upon or with respect to, the shares of Capital Stock charged by it and, so long as no enforcement has occurred and is continuing, each chargor will be entitled to exercise any voting and other consensual rights pertaining to the shares of Capital Stock charged by it. Subject to the Intercreditor Agreement, *however*, upon the occurrence of an enforcement event, the Security Agent will be entitled to exercise all rights, actions and privileges granted by law to a secured creditor.

The Security Documents will provide that the Share Charges may be enforced upon an acceleration of amounts due under the Notes following an Event of Default.

The Security Agent will enter into the Share Charges in its own name for the benefit of, *inter alios*, the Trustee and the holders of the Notes. Neither the Trustee nor the holders of the Notes may, individually or collectively, take any direct action to enforce any rights in their favour under the Share Charges. The holders of the Notes may only take action through the Trustee, who may (subject to the Intercreditor Agreement) direct the Security Agent.

In the event that the Issuer or its Subsidiaries enter into insolvency, bankruptcy or similar proceedings, the Security Interests (as defined below) created under the Share Charges or the rights and obligations set out in the Intercreditor Agreement could be subject to potential challenges. If any challenge to the validity of the Security Interests created under the Share Charges or the terms of the Intercreditor Agreement were to be successful, the Trustee and the holders of the Notes may not be able to recover any amounts under the Share Charges. See "*Risk Factors—Risks Relating to Our Debt Profile, Structure, the Notes and the Collateral*."

The Indenture permits, subject to certain conditions, including compliance with the covenant described under the caption "*—Certain Covenants—Impairment of Security Interest*," the Issuer and the Guarantors to charge the Collateral in connection with future incurrences of Debt, including any Additional Notes and Debt of Restricted Subsidiaries.

Priority

The priority with regard to the security interests in the Collateral that are created by the Security Documents (the "Security Interests" and each, a "Security Interest") as between (a) the finance parties under the Amended and Restated Senior Credit Facility, (b) the Security Agent, the Trustee and the Holders of the Notes under the Indenture, (c) the counterparties under certain Hedging Agreements

and (d) the creditors of certain other Debt permitted to be secured by the Collateral, respectively, will be established by the terms of the Intercreditor Agreement, which will provide, among other things, that the obligations under the Amended and Restated Senior Credit Facility and the Notes are secured equally and ratably by first-ranking Security Interests. See "*Description of Other Debt—Intercreditor Agreement*". See "*—Release of Security*", "*—Certain Covenants—Impairment of Security Interest*" and "*—Certain Definitions—Permitted Collateral Liens*".

Release of Security

The Collateral may be released:

(a) upon the full and final payment and performance of all obligations of the Issuer under the Indenture and the Notes;

(b) upon a defeasance or satisfaction and discharge of the Notes, as provided below under the captions "*—Defeasance*" or "*—Satisfaction and Discharge*";

(c) in accordance with the provisions described under "*—Amendments and Waivers*" or "*—Certain Covenants—Limitation on Liens*";

(d) automatically without any action by the Trustee or Security Agent, if the Lien granted in favour of the Amended and Restated Senior Credit Facility or such other Debt that gave rise to the obligation to grant the Lien over such Collateral is released;

(e) as provided for under the Intercreditor Agreement, including in accordance with certain enforcement actions taken by the creditors under certain of the Issuer's or a Restricted Subsidiary's Secured Debt in accordance with the Intercreditor Agreement or any Additional Intercreditor Agreement;

(f) in the case of property and assets and Capital Stock of a Guarantor, to the extent such Guarantor is released from its Guarantee of the Notes pursuant to the terms of the Indenture;

(g) to the extent permitted in accordance with the covenant described under the caption "*—Certain Covenants—Impairment of Security Interest*" below;

(h) in connection with any asset sale or disposition or transfer of assets to a Person that is not (either before or after giving effect to such transaction) the Issuer or a Restricted Subsidiary, if the sale or other disposition does not violate the covenant described under the caption "*—Certain Covenants—Limitation on Asset Sales*";

(i) if the Issuer designates any Restricted Subsidiary to be an Unrestricted Subsidiary in accordance with the applicable provisions of the Indenture (to the extent of such Restricted Subsidiary's assets and property); or

(j) as otherwise permitted in accordance with the Indenture.

Each of the releases set forth above may be effected by the Security Agent without the consent of the holders of the Notes. The Indenture will provide that any release of a Lien on Collateral shall be evidenced by the delivery by the Issuer to the Trustee and Security Agent of an Officer's Certificate of the Issuer, and that the Security Agent shall acknowledge and confirm such release upon delivery of such Officer's Certificate. The Trustee and the Security Agent shall take all necessary actions to effectuate the releases described above, subject to customary protections and indemnifications.

Optional Redemption

General

Any redemption and notice of redemption may, at the Issuer's discretion, be subject to the satisfaction of one or more conditions precedent (including, without limitation, in the case of a redemption related to an Equity Offering, the consummation of such Equity Offering and, in the case of a redemption of the Notes, the incurrence of indebtedness the proceeds of which will be used to redeem the Notes). In addition, if such redemption or notice is subject to satisfaction of one or more conditions precedent, such notice shall state that, in the Issuer's discretion, the redemption date may be delayed until such time as any or all such conditions shall be satisfied, or such redemption may not occur and such notice may be rescinded in the event that any or all such conditions shall not have been satisfied by the redemption date, or by the redemption date so delayed.

In the case of any partial redemption, unless otherwise required by law, the Notes to be redeemed will be selected in compliance with the requirements of the principal securities exchange, if any, on which the Notes are listed, and in compliance with the applicable procedures and requirements of the relevant clearing system(s), or, if the Notes are not listed, and the relevant clearing system(s) have no such procedures or requirements, then on a *pro rata* basis, although no Note of £100,000 in original principal amount or less will be redeemed in part, and only Notes in integral multiples of £1,000 will be redeemed. The Trustee, Paying Agent or Registrar shall not be liable for any selection made under this paragraph. If any Note is to be redeemed in part only, the notice of redemption relating to that Note will state the portion of the principal amount thereof to be redeemed. A new Note in principal amount equal to the unredeemed portion thereof will be issued and delivered in the name of the Holder thereof upon cancellation of the original Note.

Unless the Issuer defaults in the payment of the redemption price, interest will cease to accrue on the Notes or portion thereof called for redemption on the applicable redemption date.

If the optional redemption date is on or after an interest payment record date and on or before the related interest payment date, the accrued and unpaid interest will be paid to the Person in whose name the Note is registered at the close of business on such record date, and no additional interest will be payable to holders whose Notes will be subject to redemption by the Issuer.

The Issuer may provide in any notice of redemption that payment of the redemption price and performance of the Issuer's obligations with respect to such redemption may be performed by another Person.

Optional Redemption prior to 15 June 2020 upon Equity Offering

At any time prior to 15 June 2020, upon not less than 10 nor more than 60 days' notice, the Issuer may on any one or more occasions redeem up to 40% of the aggregate principal amount of Notes that were initially issued under the Indenture (calculated after giving effect to the issuance of any Additional Notes) at a redemption price of 104.000% of their principal amount, plus accrued and unpaid interest, if any, to the redemption date, with the net proceeds from one or more Equity Offerings. The Issuer may only do this, however, if:

(a) at least 50% of the aggregate principal amount of Notes that were initially issued (calculated after giving effect to the issuance of any Additional Notes) would remain outstanding immediately after the proposed redemption; and

(b) the redemption occurs within 90 days after the closing of such Equity Offering.

Optional Redemption prior to 15 June 2020

At any time prior to 15 June 2020, upon not less than 10 nor more than 60 days' notice, the Issuer may also redeem all or part of the Notes at a redemption price equal to 100% of the principal amount thereof plus the Applicable Redemption Premium and accrued and unpaid interest, if any, to the redemption date.

At any time prior to 15 June 2020, upon not less than 10 nor more than 60 days' notice, the Issuer may redeem, during each twelve-month period commencing on the Issue Date, up to 10% of the aggregate principal amount of the Notes that were initially issued under the Indenture (calculated after giving effect to the issuance of any Additional Notes) at a redemption price equal to 103.0% of the principal amount redeemed plus accrued and unpaid interest, if any, to the redemption date.

Optional Redemption on or after 15 June 2020

At any time on or after 15 June 2020 and prior to maturity, upon not less than 10 nor more than 60 days' notice, the Issuer may redeem all or part of the Notes. These redemptions will be at the following redemption prices (expressed as percentages of their principal amount at maturity), plus accrued and unpaid interest, if any, to the redemption date, if redeemed during the 12-month period beginning 15 June in each of the years set forth below:

Year	Redemption Price
2020	102.000%
2021	101.000%
2022 and thereafter	100.000%

Redemption Upon Changes in Withholding Taxes

The Issuer may, at its option, redeem the Notes, in whole but not in part, at any time upon giving not less than 10 nor more than 60 days' notice to the Holders, at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest thereon, if any, to the redemption date and all Additional Amounts, if any, then due and which will become due on the date of redemption as a result of the redemption or otherwise, if the Issuer determines in good faith that the Issuer or any Guarantor is or, on the next date on which any amount would be payable in respect of the Notes, would be obliged to pay Additional Amounts (as defined above under "*—Additional Amounts*") in respect of the Notes or the Guarantees pursuant to the terms and conditions thereof, which the Issuer or Guarantor cannot avoid by the use of reasonable measures available to it (including making payment through a Paying Agent located in another jurisdiction and, in the case of a Guarantor, making the payment giving rise to such requirement by another Guarantor who would not be obligated to pay Additional Amounts if payments through another Guarantor would be reasonable), as a result of:

(a) any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of any Relevant Taxing Jurisdiction (as defined above under "*—Additional Amounts*") affecting taxation which is enacted or issued and becomes effective on or after the date of the Indenture or, if the Relevant Taxing Jurisdiction has changed since the date of the Indenture, on or after the date on which the then current Relevant Taxing Jurisdiction became the Relevant Taxing Jurisdiction under the Indenture; or

(b) any change in the official application, administration, or interpretation of the laws, treaties, regulations or rulings of any Relevant Taxing Jurisdiction (including a holding, judgment or order by a court of competent jurisdiction) on or after the date of the Indenture or, if the Relevant Taxing Jurisdiction has changed since the date of the Indenture, on or after the date on which the then current Relevant Taxing Jurisdiction became the Relevant Taxing Jurisdiction under the Indenture (each of the foregoing clauses (a) and (b), a "Change in Tax Law").

Notwithstanding the foregoing, no such notice of redemption will be given (a) earlier than 60 days prior to the earliest date on which the Issuer or Guarantor would be obliged to make such payment of Additional Amounts or withholding if a payment in respect of the Notes were then due and (b) unless at the time such notice is given, the obligation to pay Additional Amounts remains in effect.

Prior to the publication or, where relevant, mailing of any notice of redemption pursuant to the foregoing, the Issuer will deliver to the Trustee:

(a) an Officer's Certificate stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer to so redeem have occurred (including that such obligation to pay such Additional Amounts cannot be avoided by the Issuer or Guarantor taking reasonable measures available to it); and

(b) an opinion of independent tax counsel of recognized standing, qualified under the laws of the Relevant Taxing Jurisdiction and reasonably satisfactory to the Trustee to the effect that the Issuer or Guarantor, as the case may be, is or would be obliged to pay such Additional Amounts as a result of a Change in Tax Law.

The Trustee will accept such Officer's Certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent as described above, in which event it will be conclusive and binding on the Holders.

The foregoing provisions will apply *mutatis mutandis* to any successor person, after such successor person becomes a party to the Indenture, with respect to a Change in Tax Law occurring after the time such successor person becomes a party to the Indenture.

Notice of Optional Redemption

For so long as the Notes are listed on the Irish Stock Exchange and the rules of the Exchange so require, the Issuer will publish notice of redemption on the official website of the Irish Stock Exchange (www.ise.ie), to the extent and in the manner required by the rules of the Exchange. Such notices may

instead be published in a daily newspaper with general circulation in Ireland (which is expected to be the Irish Times) or if, in the opinion of the Issuer such publication is not practicable, in an English language newspaper having general circulation in Europe. In addition, for so long as any Notes are represented by Global Notes, such notices to Holders of the Notes may be delivered by or on behalf of the Issuer to Euroclear and Clearstream. In addition to such publication, and to the extent and in the manner so required by the rules of the Exchange, not less than 10 nor more than 60 days prior to the redemption date, the Issuer will mail such notice to Holders by first-class mail, postage prepaid, at their respective addresses as they appear on the registration books of the Registrar, except that redemption notices may be mailed more than 60 days prior to a redemption date if the notice is issued in connection with a defeasance of the Notes or a satisfaction and discharge of the Indenture. The Notes will be selected in accordance with the methods described under "*—Optional Redemption—General*."

Mandatory Redemption; Offers to Purchase; Open Market Purchases

The Issuer will not be required to make any mandatory redemption or sinking fund payments with respect to the Notes. However, under certain circumstances, the Issuer may be required to offer to purchase the Notes as described under the captions "*—Certain Covenants—Change of Control*" and "*—Certain Covenants—Limitation on Asset Sales*." The Issuer and the Restricted Subsidiaries may at any time and from time to time purchase Notes in the open market or otherwise, at such price and on such terms as it sees fit.

Certain Covenants

The Indenture will contain, among others, the following covenants.

Limitation on Debt

(1) The Issuer will not, and will not permit any Restricted Subsidiary to, create, issue, incur, assume, guarantee or in any manner become directly or indirectly liable with respect to or otherwise become responsible for, contingently or otherwise, the payment of (individually and collectively, to "Incur" or, as appropriate, an "Incurrence"), any Debt (including any Acquired Debt); *provided*, that the Issuer and any Restricted Subsidiary will be permitted to Incur Debt (including Acquired Debt) if on the date on which such additional Debt is Incurred the Fixed Charge Coverage Ratio for the Issuer's two most recent consecutive fiscal halves for which internal consolidated financial statement are available prior to the date of determination, and after giving effect to the Incurrence of such Debt and the application of the proceeds thereof, on a *pro forma* basis, would have been at least 2.0 to 1.0; and

(2) This "*Limitation on Debt*" covenant will not, however, prohibit the following (collectively, "Permitted Debt"):

(a) the Incurrence by the Issuer or any Restricted Subsidiary of Debt under Credit Facilities in an aggregate principal amount at any one time outstanding not to exceed (i) £ 200.0 million *plus* (ii) in the case of any refinancing of any Debt permitted under this clause, the aggregate amount of fees, underwriting discounts, premiums and other costs and expenses incurred in connection with such refinancing;

(b) (i) the Incurrence by the Issuer of Debt represented by the Notes (other than any Additional Notes) or (ii) the Incurrence of Debt by the Guarantors pursuant to the Guarantees (other than Guarantees of any Additional Notes);

(c) any Debt of the Issuer or any Restricted Subsidiary outstanding on the Issue Date (other than Debt described in clauses (a) or (b) of this paragraph (2)), including, without limitation, the Existing Vehicle Leases and the MHE JVCo Lease;

(d) the Incurrence by the Issuer or any Restricted Subsidiary of intercompany Debt between the Issuer and any Restricted Subsidiary or between or among Restricted Subsidiaries; *provided* that:

(i) if the Issuer or a Guarantor is the obligor on any such Debt (other than Capitalised Lease Obligations representing Debt of the Issuer or any Restricted Subsidiary owed to MHE JVCo Incurred after the Issue Date and Incurred consistent with past practice) and the lender of such Debt is not the Issuer or a Guarantor, it is unsecured

and expressly subordinated in right of payment to the prior payment in full in cash (whether upon Stated Maturity, acceleration or otherwise) and the performance in full of its obligations under the Notes or its Guarantee, as the case may be; and

(ii) (x) any disposition, pledge or transfer of any such Debt to any Person (other than a disposition, pledge or transfer to the Issuer or a Restricted Subsidiary) and (y) any transaction pursuant to which any Restricted Subsidiary that has Debt owing from the Issuer or another Restricted Subsidiary ceases to be a Restricted Subsidiary, will, in each case, be deemed to be an Incurrence of such Debt not permitted by this clause (d);

(e) (i) guarantees by the Issuer or any Restricted Subsidiary of Debt of the Issuer or any Restricted Subsidiary, in each case so long as the Incurrence of such Debt is not prohibited under the terms of the Indenture; or

(ii) without limiting the covenant described under "—*Limitation on Liens*," Debt arising by reason of any Lien granted by or applicable to such Person securing Debt of the Issuer or any Restricted Subsidiary so long as the Incurrence of such Debt is not prohibited under the terms of the Indenture;

(f) the Incurrence by the Issuer or any Restricted Subsidiary of Debt represented by Capitalised Lease Obligations, mortgage financings, purchase money obligations or other Debt Incurred or assumed in connection with the acquisition, lease, rental or development and improvement of real or personal, movable or immovable, property or assets (including, without limitation, material handling equipment), in each case, Incurred for the purpose of financing or refinancing all or any part of the purchase price, lease expense or cost of design, construction, installation or improvement of property, plant, equipment or other assets used or useful in a Permitted Business (including any reasonable related fees or expenses Incurred in connection with such acquisition, lease, rental or development); *provided* that the principal amount of such Debt (other than such Debt in relation to delivery, heavy or long goods vehicles used or useful in a Permitted Business in the ordinary course of business) so Incurred when aggregated with such other Debt previously Incurred in reliance on this clause (f) and still outstanding shall not in the aggregate exceed the greater of £15.0 million and 2.1% of Consolidated Total Assets;

(g) the Incurrence by the Issuer or any Restricted Subsidiary of Debt arising from agreements providing for guarantees, indemnities or obligations in respect of earnouts or other purchase price adjustments in connection with the acquisition or disposition of assets, including, without limitation, shares of Capital Stock, other than guarantees or similar credit support given by the Issuer or any Restricted Subsidiary of Debt Incurred by any Person acquiring all or any portion of such assets for the purpose of financing such acquisition; *provided* that the maximum aggregate liability in respect of all such Debt permitted pursuant to this clause (g) will at no time exceed the gross proceeds, including non-cash proceeds (the Fair Market Value of such non-cash proceeds being measured at the time received and without giving effect to any subsequent changes in value), actually received from the sale of such assets;

(h) the Incurrence by the Issuer or any Restricted Subsidiary of Debt under Hedging Agreements entered into in the ordinary course of business and not for speculative purposes;

(i) the Incurrence by the Issuer or any Restricted Subsidiary of Debt in respect of workers' compensation and claims arising under similar legislation, or pursuant to self-insurance obligations, including Debt owed to any Captive Insurance Companies, and not in connection with the borrowing of money or the obtaining of advances or credit;

(j) Debt owed on a short-term basis of no longer than 30 days to banks and other financial institutions Incurred in the ordinary course of business of the Issuer and the Restricted Subsidiaries with such banks or financial institutions that arises in connection with ordinary banking arrangements to manage cash balances of the Issuer and the Restricted Subsidiaries;

(k) the Incurrence of Debt by the Issuer or any Restricted Subsidiary arising from (i) the honoring by a bank or other financial institution of a check, draft or similar instrument

inadvertently drawn against insufficient funds in the ordinary course of business; *provided* that such Debt is extinguished within 30 business days of Incurrence, (ii) bankers' acceptances, performance, surety, judgment, appeal, indemnity, advance payment, customs, VAT or other tax or other guarantees or other similar bonds, instruments or obligations and (iii) completion, advance payment or customs guarantees provided or letters of credit or similar instruments obtained by the Issuer or any Restricted Subsidiary in the ordinary course of business;

(l) the Incurrence by the Issuer or any Restricted Subsidiary of Permitted Refinancing Debt in exchange for, or the net proceeds of which are used to, refund, replace, refinance, defease or discharge Debt Incurred by it pursuant to, or described in, paragraphs (1), (2)(b), (2)(c), (2)(l) and (2)(t) of this "*Limitation on Debt*" covenant, as the case may be;

(m) customer deposits and advance payments received in the ordinary course of business from customers for goods or services purchased in the ordinary course of business;

(n) Management Advances;

(o) any customary cash management, cash pooling or netting or setting off arrangements in the ordinary course of business;

(p) without limiting the covenant described under "*—Limitation on Guarantees of Debt and Security by Restricted Subsidiaries*," the guarantee by the Issuer or any Restricted Subsidiary of Debt that was permitted to be incurred by another provision of this covenant; *provided* that if the Debt being guaranteed is subordinated to the Notes or is unsecured, then the guarantee shall be subordinated or unsecured to the same extent as the Debt guaranteed;

(q) without limiting the covenant described under *"—Limitation on Liens*," Debt arising by reason of any Lien granted by or applicable to such Person securing Debt of the Issuer or any Restricted Subsidiary so long as the Incurrence of such Debt is not prohibited under the terms of the Indenture;

(r) Debt consisting of (i) the financing of insurance premiums, (ii) take or pay obligations or customary deferred payment arrangements contained in supply agreements or (iii) rental guarantees, in each case, in the ordinary course of business;

(s) guarantees of the obligations of Qualified Joint Ventures at any time outstanding not exceeding the greater of £25.0 million and 3.6% of Consolidated Total Assets in aggregate principal amount;

(t) (A) the Incurrence of Debt of the Issuer or any Restricted Subsidiary to finance an acquisition or any merger or consolidation of any Person with or into the Issuer or any Restricted Subsidiary, or (B) Acquired Debt; *provided* that, in each case, on the date of such acquisition, merger or consolidation, after giving effect thereto, either (i) the Issuer would have been able to Incur at least £1.00 of additional Debt pursuant to paragraph (1) of this covenant or (ii) the Fixed Charge Coverage Ratio would not be lower than it was immediately prior to giving effect thereto;

(u) Debt of the Issuer or any Restricted Subsidiary relating to any VAT liabilities or deferral of PAYE taxes with the agreement of, or pursuant to rules or guidance of, the U.K. HM Revenue and Customs (including guarantees by a Restricted Subsidiary in favor of the U.K. HM Revenue and Customs in connection with the U.K. tax liability of the Issuer or any Restricted Subsidiary (including, without limitation, any VAT liabilities)), or other similar liabilities, taxes or obligations of the Issuer or any Restricted Subsidiary in other jurisdictions;

(v) [reserved];

(w) [reserved];

(x) any lease, concession, license or conveyance of property (or Guarantee thereof) which would be considered an operating lease under IFRS;

(y) any Contribution Debt;

(z) guarantees by the Issuer or any Restricted Subsidiary granted to any trustee of any management equity plan or stock option plan or any other management or employee

benefit or incentive plan or unit trust scheme approved by the Board of Directors of the Issuer of amounts Incurred not to exceed £ 10.0 million at any time outstanding, so long as the proceeds of the Debt so guaranteed are used to purchase the Issuer's Capital Stock (other than Redeemable Capital Stock); *provided* that the amount of any net cash proceeds from the sale of such Capital Stock of the Issuer will not be considered to be net cash proceeds from an Equity Offering for purposes described under "*—Optional Redemption—Optional Redemption prior to 15 June 2020 upon Equity Offering*"; and

(aa) the Incurrence of Debt by the Issuer or any Restricted Subsidiary (other than and in addition to Debt permitted under clauses (a) through (z) above) in an aggregate principal amount at any one time outstanding not to exceed the greater of £ 25.0 million and 3.6% of Consolidated Total Assets.

(3) Notwithstanding the foregoing, the aggregate principal amount of Debt Incurred pursuant to paragraph (1) and clauses (a), (s), (t) and (aa) of paragraph (2) above, or with respect to any Permitted Refinancing Debt related thereto, by Restricted Subsidiaries that are not Guarantors shall not exceed at any time outstanding the greater of £25.0 million and 3.6% of Consolidated Total Assets, after giving *pro forma* effect to the Incurrence thereof (including the use of proceeds therefrom).

(4) For purposes of determining compliance with this "*Limitation on Debt*" covenant, in the event that an item of Debt meets the criteria of more than one of the categories of Permitted Debt described in clauses (a) through (aa) of paragraph (2) above, or is entitled to be Incurred pursuant to paragraph (1) of this "*Limitation on Debt*" covenant, the Issuer will be permitted to classify such item of Debt on the date of its Incurrence in any manner that complies with this "*Limitation on Debt*" covenant. Debt Incurred under the Amended and Restated Senior Credit Facility outstanding on the Issue Date will be deemed to have been Incurred on such date in reliance on the exception provided by clause (a) of paragraph (2) above, and Debt Incurred under the Amended and Restated Senior Credit Facility pursuant to clause (a) of paragraph (2) above may not be reclassified as Debt Incurred under paragraph (1) above. In addition, from time to time any item of Debt initially classified as Incurred pursuant to one of the categories of Permitted Debt described in clauses (b) through (aa) of paragraph (2) above, or entitled to be Incurred pursuant to paragraph (1) of this "*Limitation on Debt*" covenant, may later be reclassified by the Issuer such that it will be deemed as having been Incurred pursuant to such new clause of paragraph (2) or paragraph (1) of this "*Limitation on Debt*" covenant to the extent that such reclassified Debt could be Incurred pursuant to such new clause of paragraph (2) or paragraph (1) of this "*Limitation on Debt*" covenant at the time of such reclassification. Debt permitted by this covenant need not be permitted solely by reference to one provision permitting such Debt but may be permitted in part by one such provision and in part by one or more other provisions of this covenant permitting such Debt.

(5) For purposes of determining compliance with any restriction on the Incurrence of Debt in Sterling where Debt is denominated in a different currency, the amount of such Debt will be the Sterling Equivalent determined on the date of such determination; *provided* that if any such Debt denominated in a different currency is subject to a Currency Agreement (with respect to Sterling) covering principal amounts payable on such Debt, the amount of such Debt expressed in Sterling will be adjusted to take into account the effect of such agreement. The principal amount of any Permitted Refinancing Debt Incurred in the same currency as the Debt being refinanced will be the Sterling Equivalent of the Debt being refinanced determined on the date such Debt being refinanced was initially Incurred. Notwithstanding any other provision of this "*Limitation on Debt*" covenant, for purposes of determining compliance with this "*Limitation on Debt*" covenant, increases in Debt solely due to fluctuations in the exchange rates of currencies will not be deemed to exceed the maximum amount that the Issuer or a Restricted Subsidiary may Incur under the "*Limitation on Debt*" covenant.

(6) For purposes of determining any particular amount of Debt under the "*Limitation on Debt*" covenant:

(a) obligations in the form of letters of credit, guarantees, Liens, bankers' acceptance or other similar instrument or obligation, in each case supporting Debt otherwise included in the determination of such particular amount will not be included;

(b) any Liens granted pursuant to the equal and ratable provisions referred to in the "*Limitation on Liens*" covenant will not be treated as Debt; and

(c) accrual of interest, accrual of dividends, the accretion or amortisation of original issue discount or of accreted value, the obligation to pay commitment fees and the payment of interest or dividends in the form of additional Debt, will not, in any case, be treated as Debt.

Limitation on Restricted Payments

(1) The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, take any of the following actions (each of which is a "Restricted Payment" and which are collectively referred to as "Restricted Payments"):

(a) declare or pay any dividend on or make any distribution (whether made in cash, securities or other property) with respect to any of the Issuer's or any Restricted Subsidiary's Capital Stock (including, without limitation, any payment in connection with any merger, consolidation, amalgamation or other combination involving the Issuer or any Restricted Subsidiary) (other than to the Issuer or any Restricted Subsidiary) except for dividends or distributions payable solely in shares of the Issuer's Qualified Capital Stock or in options, warrants or other rights to acquire such shares of Qualified Capital Stock or in Subordinated Shareholder Debt;

(b) purchase, redeem or otherwise acquire or retire for value (including, without limitation, in connection with any merger, consolidation, amalgamation or other combination), directly or indirectly, any shares of the Issuer's Capital Stock or any Capital Stock of a Holding Company of the Issuer held by persons other than the Issuer or a Restricted Subsidiary or any options, warrants or other rights to acquire such shares of Capital Stock;

(c) make any principal payment on, or repurchase, redeem, defease or otherwise acquire or retire for value, prior to any scheduled principal payment, sinking fund payment or Stated Maturity, any Subordinated Debt (other than (i) any such payment, purchase, repurchase, redemption, defeasance or other acquisition or retirement or in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case, due within one year of the date of payment, purchase, repurchase, redemption, defeasance or other acquisition or retirement and (ii) intercompany Debt between the Issuer and any Restricted Subsidiary or among Restricted Subsidiaries);

(d) make any payment (whether of principal, interest or other amounts) on, or purchase, repurchase, redeem, defease or otherwise acquire or retire for value any Subordinated Shareholder Debt (other than any payment of interest thereon in the form of additional Subordinated Shareholder Debt); or

(e) make any Restricted Investment in any Person.

If any Restricted Payment described above is not made in cash, the amount of the proposed Restricted Payment will be the Fair Market Value of the asset to be transferred as at the date of transfer.

(2) Notwithstanding paragraph (1) above, the Issuer or any Restricted Subsidiary may make a Restricted Payment if, at the time of and after giving *pro forma* effect to such proposed Restricted Payment:

(a) no Default or Event of Default has occurred and is continuing;

(b) the Issuer could Incur at least £1.00 of additional Debt pursuant to the ratio set forth in paragraph (1) of the "*Limitation on Debt*" covenant; and

(c) the aggregate amount of all Restricted Payments declared or made after the Issue Date, and after giving effect to any reductions required by paragraph (4) below, does not exceed the sum of:

(i) 50% of aggregate Consolidated Net Income on a cumulative basis during the period beginning on 28 November 2016 and ending on the last day of the Issuer's last fiscal half ending prior to the date of such proposed Restricted Payment (or, if such aggregate cumulative Consolidated Net Income shall be a negative number, minus 100% of such negative amount); *plus*

(ii) the aggregate Net Cash Proceeds and the Fair Market Value of property or assets or marketable securities received by the Issuer after the Issue Date as equity capital

contributions or from the issuance or sale (other than to any Subsidiary) of shares of the Issuer's Qualified Capital Stock (including upon the exercise of options, warrants or rights) or warrants, options or rights to purchase shares of the Issuer's Qualified Capital Stock (except, in each case to the extent such proceeds are used to purchase, redeem or otherwise retire Capital Stock or Subordinated Debt as set forth in clauses (d) or (e) of paragraph (3) below) (excluding (x) any Contribution Amounts and (y) the Net Cash Proceeds and the Fair Market Value of property or assets or marketable securities received from the issuance of the Issuer's Qualified Capital Stock financed, directly or indirectly, using funds borrowed from the Issuer or any Subsidiary until and to the extent such borrowing is repaid); *plus*

(iii) (x) the amount by which the Issuer's Debt or Debt of any Restricted Subsidiary is reduced on the Issuer's consolidated balance sheet after the Issue Date upon the conversion or exchange (other than by a Subsidiary) of such Debt into the Issuer's Qualified Capital Stock and (y) the aggregate Net Cash Proceeds and the Fair Market Value of property or assets or marketable securities received after the Issue Date by the Issuer from the issuance or sale (other than to any Subsidiary) of Redeemable Capital Stock that has been converted into or exchanged for the Issuer's Qualified Capital Stock, to the extent such Redeemable Capital Stock was originally sold for cash or Cash Equivalents, together with, in the case of both clauses (x) and (y), the aggregate Net Cash Proceeds and the Fair Market Value of property or assets or marketable securities received by the Issuer at the time of such conversion or exchange (excluding the Net Cash Proceeds from the issuance of the Issuer's Qualified Capital Stock financed, directly or indirectly, using funds borrowed from the Issuer or any Subsidiary until and to the extent such borrowing is repaid); *plus*

(iv) (x) repurchases, redemptions or other acquisitions or retirements of any Restricted Investment, proceeds realized upon the sale or other disposition to a Person other than the Issuer or a Restricted Subsidiary of any such Restricted Investment, repayments of loans or advances or other transfers of assets (including by way of dividend, distribution, interest payments or returns of capital) to the Issuer or any Restricted Subsidiary, *less* the cost of the disposition of such Investment and net of taxes, (y) if such Investment constituted a guarantee, an amount equal to the amount of such guarantee upon the full and unconditional release of such guarantee and (z) in the case of the designation of an Unrestricted Subsidiary as a Restricted Subsidiary (as long as the designation of such Subsidiary as an Unrestricted Subsidiary was deemed a Restricted Payment), the Fair Market Value of the Issuer's interest in such Subsidiary; *plus*

(v) in the event that the Issuer or any Restricted Subsidiary makes any Investment in a Person that, as a result of or in connection with such Investment, becomes a Restricted Subsidiary, an amount equal to the Fair Market Value of the Issuer's or such Restricted Subsidiary's existing interest in such Person that was previously treated as a Restricted Payment.

(3) Notwithstanding paragraphs (1) and (2) above, the Issuer and any Restricted Subsidiary may take the following actions; *provided* that solely with respect to clauses (o) and (p) below, no Default or Event of Default has occurred and is continuing:

(a) the payment of any dividend or the consummation of any redemption within 60 days after the date of its declaration or giving of notice of redemption, as applicable, if at such date of its declaration or giving of notice of redemption, as applicable, such payment would have been permitted by the provisions of this "*Limitation on Restricted Payments*" covenant;

(b) cash payments in lieu of issuing fractional shares pursuant to the exchange or conversion of any exchangeable or convertible securities;

(c) the purchase, repurchase, redemption, defeasance or other acquisition, cancellation or retirement for value of any Capital Stock of the Issuer or any Restricted Subsidiary (including any options, warrants or other rights in respect thereof) and loans, advances, dividends or distributions by the Issuer to any Parent to permit any Parent to purchase, repurchase, redeem, defease or otherwise acquire, cancel or retire for value Capital

Stock of the Issuer, any Restricted Subsidiary or any Parent (including any options, warrants or other rights in respect thereof), or payments to purchase, repurchase, redeem, defease or otherwise acquire, cancel or retire for value Capital Stock of the Issuer, any Restricted Subsidiary or any Parent (including any options, warrants or other rights in respect thereof), in each case, from any current or former officer, director, consultant, or employee of the Issuer or any of the Restricted Subsidiaries or any Parent pursuant to any equity subscription agreement, management equity plan, stock option agreement, shareholders' agreement or similar agreement; *provided* that the aggregate price paid for all such repurchased, redeemed, acquired or retired Capital Stock may not exceed an amount (net of repayments of any such loans or advances) equal to:

(i) £5.0 million in any twelve-month period (with unused amounts in any twelve-month period being carried over to the next succeeding twelve-month period); *plus*

(ii) the Net Cash Proceeds received by the Issuer or the Restricted Subsidiaries since the Issue Date (including through receipt of proceeds from the issuance or sale of its Capital Stock or Subordinated Shareholder Debt to a Parent), or as a contribution to the equity of the Issuer from the issuance or sale of Capital Stock (including any options, warrants or other rights in respect thereof) to any current or former officer, director or employee of the Issuer, any Restricted Subsidiary or any Parent; *plus*

(iii) the Net Cash Proceeds of key man life insurance policies, in each case, to the extent such Net Cash Proceeds are not included in any calculation under clause (2)(c)(i) of this covenant, and

provided, further, that cancellation of Debt owing to the Issuer or any Restricted Subsidiary from members of management, directors or employees of any Parent, the Issuer or Restricted Subsidiaries in connection with a repurchase of Capital Stock of the Issuer or any Parent will not be deemed to constitute a Restricted Payment for purposes of this covenant or any other provision of the Indenture;

(d) the repurchase, redemption or other acquisition or retirement for value of any shares of the Issuer's Capital Stock or options, warrants or other rights to acquire such Capital Stock in exchange for (including any such exchange pursuant to the exercise of a conversion right or privilege in connection with which cash is paid in lieu of the issuance of fractional shares or scrip), or out of the Net Cash Proceeds of a substantially concurrent issuance and sale (other than to a Subsidiary) of, shares of the Issuer's Qualified Capital Stock or options, warrants or other rights to acquire such Capital Stock or Subordinated Shareholder Debt (excluding any Contribution Amounts);

(e) the prepayment, repayment, purchase, repurchase, redemption, defeasance or other acquisition or retirement for value or payment of principal of any Subordinated Debt in exchange for, or out of the Net Cash Proceeds of the issuance and sale (other than to a Subsidiary) of, shares of the Issuer's Qualified Capital Stock or Subordinated Shareholder Debt;

(f) the prepayment, repayment, purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of Subordinated Debt (other than Redeemable Capital Stock) in exchange for, or out of the Net Cash Proceeds of the Incurrence (other than to a Subsidiary) of, Permitted Refinancing Debt;

(g) the declaration or payment of any dividend or distribution to holders of Capital Stock of a Restricted Subsidiary on a *pro rata* basis or on a basis that results in the receipt by the Issuer or a Restricted Subsidiary of dividends or distributions of greater value than the Issuer or such Restricted Subsidiary would receive on a *pro rata* basis; *provided* that such declaration or payment by MHE JVCo may be on a basis that results in the receipt by the Issuer or a Restricted Subsidiary of dividends or distributions of lesser value than the Issuer or such Restricted Subsidiary would receive on a *pro rata* basis to the extent the Issuer determines in good faith appropriate to reflect economic contributions to MHE JVCo to fund its capital expenditure that are not made *pro rata* to the holders' interests in MHE JVCo's equity interests;

(h) the repurchase of Capital Stock deemed to occur upon the exercise of stock options with respect to which payment of the cash exercise price has been forgiven if the cumulative

aggregate value of such deemed repurchases does not exceed the cumulative aggregate amount of the exercise price of such options received;

(i) the declaration and payment of dividends to holders of any class or series of Redeemable Capital Stock issued in accordance with the "*Limitation on Debt*" covenant;

(j) the purchase, repurchase, redemption, retirement or other acquisition for value of Capital Stock deemed to occur upon the exercise of stock options, warrants or other securities, if such Capital Stock represents a portion of the exercise price of such options, warrants or other securities;

(k) any purchase, repurchase, redemption, defeasance or other acquisition or retirement of Subordinated Debt of the Issuer or any of the Restricted Subsidiaries pursuant to provisions similar to those described under "*—Change of Control*;" *provided* that all Notes validly tendered by Holders in connection with a Change of Control Offer have been repurchased, redeemed or acquired for value, as applicable;

(l) the purchase, repurchase, redemption, acquisition or retirement of Subordinated Debt of the Issuer or any Restricted Subsidiary with any Excess Proceeds remaining after consummation of an Excess Proceeds Offer pursuant to the covenant described under "*—Limitation on Asset Sales*;"

(m) Permitted Parent Payments;

(n) [reserved];

(o) any other Restricted Payment; *provided* that the total aggregate amount of Restricted Payments made under this clause (o) does not exceed the greater of £15.0 million or 2.1% of Consolidated Total Assets;

(p) from and after the date that is 24 months after the Issue Date, any Restricted Payment; *provided* that the Consolidated Net Leverage Ratio would not be greater than 2.50 to 1.00 on a *pro forma* basis after giving effect to such Restricted Payment;

(q) payments pursuant to any Tax Sharing Agreement or arrangement among the Issuer and its Subsidiaries and other Persons with which the Issuer or any of its Subsidiaries is required or permitted to file a consolidated tax return or with which the Issuer or any of its Restricted Subsidiaries is a part of a group for tax purposes; *provided,* however, that such payments will not exceed the amount of tax that the Issuer and its Subsidiaries would owe on a standalone basis and the related tax liabilities of the Issuer and its Subsidiaries are relieved by the payment of such amounts to a relevant taxing authority; and

(r) the distribution, as a dividend or otherwise, of shares of Capital Stock of, or Debt owed to, the Issuer or a Restricted Subsidiary by Unrestricted Subsidiaries.

(4) The actions described in clauses (a) and (o) of paragraph (3) above are Restricted Payments that will be permitted to be made in accordance with paragraph (3) but that will reduce the amount that would otherwise be available for Restricted Payments under clause (c) of paragraph (2) above.

(5) The Issuer, in its sole discretion, may classify any Permitted Investment or other Restricted Payment as being made in part under one of the clauses or sub-clauses of this covenant (or, in the case of any Permitted Investment, the clauses or sub-clauses of Permitted Investments) and in part under one or more other such clauses or sub-clauses.

Limitation on Transactions with Affiliates

(1) The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into or suffer to exist any transaction or series of related transactions (including, without limitation, the sale, purchase, exchange or lease of assets or property or the rendering of any service), with, or for the benefit of, any Affiliate of the Issuer or any other Restricted Subsidiary having a value greater than £5.0 million, unless such transaction or series of transactions is entered into in good faith and:

(a) such transaction or series of transactions is on terms that, taken as a whole, are not materially less favourable to the Issuer or such Restricted Subsidiary, as the case may

be, than those that could have been obtained in a comparable arm's -length transaction (as determined in good faith by the Issuer) with a Person that is not an Affiliate;

(b) with respect to any transaction or series of related transactions involving aggregate payments or the transfer of assets or the provision of services, in each case having a value greater than £15.0 million, the Issuer will deliver a resolution of its Board of Directors (attached to an Officer's Certificate to the Trustee) resolving that such transaction complies with clause (a) above and that the fairness of such transaction has been approved by a majority of the Disinterested Members, if any, of the Board of Directors; and

(c) with respect to any transaction or series of related transactions involving aggregate payments or the transfer of assets or the provision of services, in each case having a value greater than £25.0 million, the Issuer will deliver to the Trustee a written opinion of an Independent Financial Advisor stating its view that the transaction or series of transactions is fair to the Issuer or such Restricted Subsidiary from a financial point of view or that the terms are not materially less favourable to the Issuer or its relevant Restricted Subsidiary than those that might have been obtained in a comparable transaction by the Issuer or such Restricted Subsidiary on an arm's length basis from a Person that is not an Affiliate.

(2) Notwithstanding the foregoing, the restrictions set forth in this description will not apply to:

(a) reasonable directors' fees, indemnities and similar arrangements (including the payment of directors' and officers' insurance premiums), consulting and advisory fees, employee compensation, employee and director bonuses, directorship, employment or consulting agreements and arrangements, collective bargaining agreements, employee benefit arrangements, including vacation, health, insurance, deferred compensation, severance, retirement, savings or other similar plans, programs or arrangements or legal fees payable to any current or former employee, officer or director as long as the Issuer's Board of Directors has approved the terms thereof and deemed the services performed or thereafter to be performed for amounts to be fair consideration therefor;

(b) Permitted Investments (other than pursuant to clause (c)(iii), (q) or (w) of the definition thereof) and any Restricted Payment not prohibited by the "*Limitation on Restricted Payments*" covenant;

(c) any Management Advances or Permitted Parent Payments and any waiver or transaction with respect thereto;

(d) agreements, instruments and arrangements existing on the Issue Date and any amendment, extension, renewal, refinancing, modification or supplement thereto and any payments or transaction in relation thereto; *provided* that any such amendment, extension, renewal, refinancing, modification or supplement to the terms thereof is not more disadvantageous (as determined in good faith by the Issuer), taken as a whole, to the holders of the Notes and to the Issuer and the Restricted Subsidiaries, as applicable, in any material respect than the original agreement or arrangement as in effect on the Issue Date;

(e) the issuance of securities or other payments, awards or grants in cash, securities or similar transfers pursuant to, or for the purpose of the funding of, directorship, employment or consulting arrangements, stock options, stock ownership plans and other similar arrangements, as long as the terms thereof are or have been previously approved by the Issuer's Board of Directors;

(f) the granting and performance of registration rights for the Issuer's securities;

(g) transactions between or among the Issuer and the Restricted Subsidiaries or between or among Restricted Subsidiaries;

(h) any issuance of Capital Stock (other than Redeemable Capital Stock) of the Issuer or options, warrants or other rights to acquire such Capital Stock (other than Redeemable Capital Stock);

(i) the existence of, or the performance by the Issuer or any of the Restricted Subsidiaries of its obligations under the terms of, any stockholders agreement (including any registration

rights agreement or purchase agreement relating thereto) to which it is a party as at the Issue Date and any similar agreements which it may enter into thereafter; *provided*, however, that the existence of, or the performance by the Issuer or any of the Restricted Subsidiaries of, obligations under any future amendment to any such existing agreement or under any similar agreement entered into after the Issue Date shall only be permitted by this clause (i) to the extent that the terms of any such amendment or new agreement are not otherwise disadvantageous (as determined in good faith by the Issuer) to the holders of the Notes when taken as a whole;

(j) transactions with a Person that is an Affiliate of the Issuer or any Restricted Subsidiary solely (x) because the Issuer or a Restricted Subsidiary owns Capital Stock in such Person (including, without limitation, any such Person that is a Captive Insurance Company), (y) because the Issuer or a Restricted Subsidiary has the right to designate one or more members of the Board of Directors or similar governing body of such Person, or (z) as a result of both such ownership of Capital Stock and such right to so designate;

(k) transactions with customers, clients, suppliers or purchasers or sellers of goods or services, in each case in the ordinary course of business, which are fair to the Issuer or the relevant Restricted Subsidiary in the reasonable determination of the Board of Directors or an officer of the Issuer or the relevant Restricted Subsidiary or are on terms materially no less favourable than those that could reasonably have been obtained at such time from an unaffiliated party (as determined in good faith by the Issuer); and

(l) the execution of, delivery of and performance under any Tax Sharing Agreement.

Limitation on Liens

(1) The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, create or permit to exist any Lien on any of its property or assets, whether owned on the date of the Indenture or thereafter acquired, securing any Debt of the Issuer or any Restricted Subsidiary (the "Initial Lien"), unless (a) in the case of any property or assets that does not constitute Collateral, (i) such Lien is a Permitted Lien or (ii) contemporaneously therewith effective provision is made to secure the Notes and the Indenture or, in respect of Liens on property or assets of any Guarantor, such Guarantee thereof, equally and ratably with (or, in the case of Subordinated Debt of the Issuer or a Guarantor on a senior basis to) such Debt for so long as such Debt is so secured by such Initial Lien and (b) in the case of any property or assets that constitute Collateral, such Lien is a Permitted Collateral Lien.

(2) Any such Lien created as a result of this covenant "*Limitation on Liens*" in favour of the Notes or any such Guarantee will be automatically and unconditionally released and discharged upon (i) the release and discharge of the Initial Lien to which it relates or (ii) as set forth under the caption "—*Security*".

Change of Control

(1) If a Change of Control occurs at any time, the Issuer will make an offer (a "Change of Control Offer") to each Holder of Notes to purchase such Holder's Notes, in whole or in part, in a principal amount of £100,000 or in integral multiples of £1,000 in excess thereof at a purchase price (the "Change of Control Purchase Price") in cash equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the date of purchase (the "Change of Control Purchase Date").

(2) Within 30 days following any Change of Control, the Issuer will send notice of the Change of Control Offer by first-class mail, with a copy to the Trustee, Registrar and each Paying Agent, to each Holder of Notes appearing in the security register on such date, which notice will state:

(a) that a Change of Control has occurred and the date it occurred;

(b) the circumstances and relevant facts regarding such Change of Control;

(c) the Change of Control Purchase Price and the Change of Control Purchase Date, which will be a business day no earlier than 30 days nor later than 60 days after the date such notice is mailed, or such later date as is necessary to comply with any requirements under the Exchange Act or any other applicable securities laws or regulations;

(d) that any Note accepted for payment pursuant to the Change of Control Offer will cease to accrue interest after the Change of Control Purchase Date unless the Change of Control Purchase Price is not paid on such date;

(e) that any Note or part thereof not tendered will continue to accrue interest; and

(f) any other procedures that a Holder of Notes must follow to accept a Change of Control Offer or to withdraw such acceptance.

(3) Upon receipt by the Trustee from the Issuer of an Officer's Certificate stating the aggregate principal amount of Notes or portions thereof being purchased by the Issuer in the Change of Control, the Paying Agent will promptly authenticate and deliver a new Note or Notes in a principal amount equal to any unpurchased portion of Notes surrendered, if any, to the Holder of Notes in global form or to each Holder of certificated Notes; *provided* that each such new Note will be in a principal amount of £100,000 or in integral multiples of £1,000 in excess thereof. The Issuer will publicly announce the results of a Change of Control Offer on or as soon as practicable after the Change of Control Purchase Date.

(4) The Issuer will not be required to make a Change of Control Offer following a Change of Control if (i) the Notes have been irrevocably and unconditionally called for redemption as described under "*Optional Redemption*" or (ii) a third party has made, and not terminated, a tender offer for all of the Notes in the manner and at the times applicable to a Change of Control Offer, at a tender offer purchase price in cash equal to at least 101% of the principal amount thereof on the date of purchase, plus accrued and unpaid interest, if any, and such third party purchases all of the Notes validly tendered and not withdrawn under such tender offer. No Note will be purchased in part if less than £100,000 in original principal amount of such Note would remain outstanding following such purchase.

The Issuer and the Guarantors will comply with the applicable tender offer rules, including Rule 14e-1 under the Exchange Act, and any other applicable securities laws and regulations in connection with a Change of Control Offer. To the extent that the provisions of any securities laws or regulations conflict with provisions of the Indenture, the Issuer and the Guarantors will comply with such applicable securities laws and regulations and will not be deemed to have breached their obligations under the Indenture by virtue of such conflict.

For so long as the Notes are listed on the Irish Stock Exchange and the rules of the Exchange so require, the Issuer will publish notices relating to the Change of Control Offer on the official website of the Irish Stock Exchange (www.ise.ie), to the extent and in the manner required by the rules of the Exchange. Such notices may instead be published in a daily newspaper with general circulation in Ireland (which is expected to be the Irish Times) or if, in the opinion of the Issuer such publication is not practicable, in an English language newspaper having general circulation in Europe. In addition, for so long as any Notes are represented by Global Notes, such notices to Holders of the Notes may be delivered by or on behalf of the Issuer to Euroclear and Clearstream.

The occurrence of certain events that would constitute a Change of Control could constitute a default under the Amended and Restated Senior Credit Facility. The Issuer's future debt and the future debt of its Subsidiaries may also contain provisions that, if certain events occur, would require such debt to be repurchased. In addition, the exercise by the holders of the Notes of their right to require a repurchase of the Notes upon a Change of Control could cause a default under the Amended and Restated Senior Credit Facility and any such future debt, even if the Change of Control itself does not, due to the possible financial effect on the Issuer or the Guarantors of such repurchase. Not all business combinations or acquisitions of us by third parties would necessarily result in a Change of Control and may not result in a Change of Control Offer to holders of the Notes. The provisions of the Indenture will not give Holders the right to require the repurchase of the Notes in the event of certain transactions including a reorganization, restructuring, merger or similar transaction that may adversely affect Holders of the Notes, if such transaction is not a transaction defined as a Change of Control. Any such transaction, however, would have to comply with the applicable provisions of the Indenture, including those described under "*—Certain Covenants—Limitation on Debt*." The existence, however, of a Holder of the Notes' right to require the Issuer to repurchase such Holder's Notes upon a Change of Control may deter a third party from acquiring the Issuer or any of its Subsidiaries if such acquisition would constitute a Change of Control.

If a Change of Control Offer is made, the Issuer will not be able to provide any assurance that it will have available funds sufficient to pay the Change of Control Purchase Price for all the Notes that might be delivered by holders of the Notes seeking to accept the Change of Control Offer. Even if sufficient funds were available, the terms of any other debt of the Issuer and its Subsidiaries may prohibit the repurchase of the Notes prior to their scheduled maturity. If the Issuer were not able to prepay any debt containing any such restrictions, or obtain requisite consents, the Issuer would be unable to fulfill its repurchase obligations to holders of Notes who accept the Change of Control Offer. If a Change of Control Offer was not made or consummated or the Change of Control Purchase Price was not paid when due, such failure would result in an Event of Default and would give the Trustee and the holders of the Notes the rights described under "—*Events of Default*." An Event of Default under the Indenture, unless waived, would result in a cross-default under certain of the financing arrangements described under "*Description of Other Debt*," including under the Amended and Restated Senior Credit Facility.

If Holders of not less than 90% in aggregate principal amount of the outstanding Notes validly tender and do not withdraw such Notes in a Change of Control Offer and the Issuer, or any third party making a Change of Control Offer in lieu of the Issuer as described above, purchases all of the Notes validly tendered and not withdrawn by such holders, the Issuer or such third party will have the right, upon not less than 10 nor more than 60 days' prior notice (*provided* that such notice is given not more than 10 days following such purchase pursuant to the Change of Control Offer described above) to redeem all Notes that remain outstanding following such purchase at a price in cash equal to 101% of the principal amount thereof on the redemption date plus accrued and unpaid interest (if any) to but not including the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

The definition of "Change of Control" includes a disposition of all or substantially all of the assets of the Issuer and the Restricted Subsidiaries to any Person. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of such phrase under applicable law. Accordingly, in certain circumstances, there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of "all or substantially all" of the assets of the Issuer and the Restricted Subsidiaries. As a result, it may be unclear as to whether a Change of Control has occurred and whether a Holder of Notes may require the Issuer to make an offer to repurchase the Notes as described above.

The provisions of the Indenture relating to the Issuer's obligation to make an offer to repurchase the Notes following a Change of Control may be waived or modified with the prior written consent of the Holders of a majority in principal amount of the Notes. See "—*Amendments and Waivers*" below.

Limitation on Asset Sales

(1) The Issuer will not, and will not permit any Restricted Subsidiary to, consummate any Asset Sale unless:

(a) the consideration (including by way of relief from, or by any other Person assuming responsibility for, any liabilities, contingent or otherwise) the Issuer or such Restricted Subsidiary receives for such Asset Sale is not less than the Fair Market Value of the assets sold (as determined in good faith by the Issuer (*provided* that the Issuer's Board of Directors shall determine in good faith the Fair Market Value for any Asset Sale or series of related Asset Sales involving aggregate consideration in excess of £15.0 million), and the Issuer's determination (including the Board of Directors' determination, as applicable) will be conclusive (as to the value of any and all non-cash consideration);

(b) at least 75% of the consideration the Issuer or such Restricted Subsidiary receives in respect of such Asset Sale consists of:

(i) cash (including any Net Cash Proceeds received from the conversion to cash within 180 days of such Asset Sale of securities, notes or other obligations received in consideration of such Asset Sale);

(ii) Cash Equivalents (including any Net Cash Proceeds received from the conversion to cash or Cash Equivalents within 180 days of such Asset Sale of securities, notes or other obligations received in consideration of such Asset Sale);

(iii) the assumption by the purchaser of (x) the Issuer's Debt or Debt of any Restricted Subsidiary (other than Subordinated Debt) as a result of which neither the Issuer nor any of the Restricted Subsidiaries remains obliged in respect of such Debt or (y) Debt of a Restricted Subsidiary that is no longer a Restricted Subsidiary as a result of such Asset Sale, if the Issuer and each other Restricted Subsidiary is released from any guarantee of such Debt as a result of such Asset Sale;

(iv) Replacement Assets;

(v) any Designated Non-cash Consideration received by the Issuer or any of the Restricted Subsidiaries in such Asset Sale; *provided* that the aggregate Fair Market Value of such Designated Non-cash Consideration, taken together with the Fair Market Value at the time of receipt of all other Designated Non-cash Consideration received pursuant to this clause (v), *less* the amount of Net Proceeds previously realized in cash from prior Designated Non-cash Consideration does not exceed (with the Fair Market Value of each item of Designated Non- cash Consideration being measured at the time received and without giving effect to subsequent changes in value) £20.0 million; or

(vi) a combination of the consideration specified in clauses (i) through (v); and

(c) the Issuer delivers an Officer's Certificate to the Trustee certifying that such Asset Sale complies with the provisions described in the foregoing clauses (a) and (b).

(2) If the Issuer or any Restricted Subsidiary consummates an Asset Sale, the Net Cash Proceeds of the Asset Sale, within 365 days of the receipt of the Net Cash Proceeds of such Asset Sale (or the Issuer or any such Restricted Subsidiary may enter into a binding commitment to so use; *provided* that such Net Cash Proceeds are so used within 180 days after the expiration of the aforementioned 365 day period), may be used by the Issuer or such Restricted Subsidiary to:

(a) (i) to prepay, repay, purchase or redeem any Debt Incurred under clause (2)(a) of the covenant described under "*—Certain Covenants—Limitation on Debt*," that is secured by the Collateral on a basis *pari passu* with the Notes and is not subordinated in right of payment to the Notes or any Guarantee, and if the Debt is revolving credit Debt, to correspondingly permanently reduce the commitments with respect thereto; (ii) to prepay, repay, purchase or redeem any Debt of a Restricted Subsidiary that is not a Guarantor or any Debt that is secured by Liens on assets which do not constitute Collateral (in each case other than Subordinated Debt or Debt that is owed to the Issuer or any Restricted Subsidiary); (iii) to prepay, repay, purchase or redeem *Pari Passu* Debt at a price of no more than 100% of the principal amount of such *Pari Passu* Debt plus accrued and unpaid interest to the date of such prepayment, repayment, purchase or redemption; *provided* that the Issuer shall redeem, repay, repurchase or redeem any such *Pari Passu* Debt pursuant to this clause (iii) only if the Issuer either (A) reduces the aggregate principal amount of the Notes on ratable basis with any such *Pari Passu* Debt repaid pursuant to this clause (iii) by making an offer to the Holders of the Notes to purchase their Notes in accordance with the provisions set forth below for an Excess Proceeds Offer on a ratable basis with any such *Pari Passu* Debt repaid pursuant to this clause (iii) (which offer shall be deemed to be an Excess Proceeds Offer for purposes hereof); (iv) to make (at such time or subsequently in compliance with this covenant) an offer to the Holders of the Notes to purchase their Notes in accordance with the provisions set forth below for an Excess Proceeds Offer (which offer shall be deemed to be an Excess Proceeds Offer for purposes hereof); or (v) to redeem, in whole or in part, any series of Notes as described under "*—Optional Redemption*";

(b) make capital expenditures or to invest in any Replacement Assets (including by means of capital expenditure by, or an investment in Replacement Assets by, a Restricted Subsidiary with an amount equal to some or all of the Net Cash Proceeds received by the Issuer or another Restricted Subsidiary); or

(c) do any combination of the foregoing.

The amount of such Net Cash Proceeds actually received by the Issuer or any Restricted Subsidiary but not so used as set forth in this paragraph (2) constitutes "Excess Proceeds." Pending the final application of any such Net Cash Proceeds, the Issuer may temporarily reduce revolving credit borrowings or otherwise use such Net Cash Proceeds in any manner that is not prohibited by the terms of the Indenture.

(3) When the aggregate amount of Excess Proceeds exceeds £20.0 million, the Issuer will, within 30 Business Days, make an offer to purchase (an "Excess Proceeds Offer") from all holders of Notes and, at the Issuer's election, from the holders of any *Pari Passu* Debt, to the extent required by the terms thereof, on a *pro rata* basis, in accordance with the procedures set forth in the Indenture or the agreements governing any such *Pari Passu* Debt, the maximum principal amount, in the case of the Notes (expressed as a minimum amount of £100,000 and integral multiples of £1,000 in excess thereof) of the Notes and any such *Pari Passu* Debt that may be purchased with the amount of the Excess Proceeds. The offer price as to each Note and any such *Pari Passu* Debt will be payable in cash in an amount equal to (solely in the case of the Notes) 100% of the principal amount of such Note being repurchased and (solely in the case of *Pari Passu* Debt) no greater than 100% of the principal amount (or accreted value, as applicable) of such *Pari Passu* Debt being redeemed or repurchased, *plus*, in each case, accrued and unpaid interest, if any, to the date of purchase.

To the extent that the aggregate principal amount of Notes and any such *Pari Passu* Debt tendered pursuant to an Excess Proceeds Offer is less than the aggregate amount of Excess Proceeds, the Issuer may use the amount of such Excess Proceeds not used to purchase Notes and *Pari Passu* Debt, if any, for general corporate purposes that are not otherwise prohibited by the Indenture. If the aggregate principal amount of Notes and any such *Pari Passu* Debt validly tendered and not withdrawn by holders thereof exceeds the aggregate amount of Excess Proceeds, the Notes and any such *Pari Passu* Debt to be purchased will be allocated on a *pro rata* basis (based upon the principal amount of Notes and the principal amount or accreted value of such *Pari Passu* Debt tendered by each holder). Upon completion of each such Excess Proceeds Offer, the amount of Excess Proceeds will be reset to zero.

(4) If the Issuer is obliged to make an Excess Proceeds Offer, the Issuer will purchase the Notes and *Pari Passu* Debt, at the option of the holders thereof, in whole or in part in a minimum amount of £100,000 and integral multiples of £1,000 in excess thereof on a date that is not earlier than 30 days and not later than 60 days from the date the notice of the Excess Proceeds Offer is given to such Holders, or such later date as may be required under the Exchange Act.

Pending the final application of any Net Proceeds, the Issuer may temporarily reduce revolving credit borrowings or otherwise use the Net Proceeds in any manner that is not prohibited by the Indenture.

If the Issuer is required to make an Excess Proceeds Offer, the Issuer will comply with the applicable tender offer rules, including Rule 14e-1 under the Exchange Act and any other applicable securities laws and regulations, including the requirements of any applicable securities exchange on which Notes are then listed. To the extent that the provisions of any securities laws or regulations conflict with the provisions of this "*Limitation on Asset Sales*" covenant, the Issuer will comply with such securities laws and regulations and will not be deemed to have breached its obligations described in this "*Limitation on Asset Sales*" covenant by virtue thereof.

Limitation on Guarantees of Debt and Security by Restricted Subsidiaries

(1) The Issuer will not permit any Restricted Subsidiary that is not a Guarantor, directly or indirectly, to guarantee, assume or in any other manner become liable for the payment of any Debt outstanding under any Credit Facility Incurred under clause (2)(a) of the covenant described under "*—Limitation on Debt*" or any other Public Debt of the Issuer or any Guarantor (other than the Notes), unless such Restricted Subsidiary either (i) is not a Significant Subsidiary and, in respect of any Debt outstanding under the Amended and Restated Senior Credit Facility (as may be refinanced, amended or amended and restated from time to time) only, has not become a Guarantor under the Amended and Restated

Senior Credit Facility, *provided* that any such Restricted Subsidiary that is not a Significant Subsidiary also would not, in the aggregate when taken together with other Restricted Subsidiaries that are not Significant Subsidiaries, constitute a Significant Subsidiary if considered as a single person or (ii) executes and delivers within 30 days a supplemental indenture to the Indenture providing for a Guarantee of payment of the Notes by such Restricted Subsidiary on the same terms as the guarantee of such other Debt; and with respect to any guarantee of Subordinated Debt by such Restricted Subsidiary, any such guarantee shall be subordinated to such Restricted Subsidiary's Guarantee with respect to the Notes at least to the same extent as such Subordinated Debt is subordinated to the Notes. Any Guarantee of payment of the Notes may contain limitations on Guarantor liability to the extent reasonably necessary (as determined in good faith by the Issuer) to recognize certain defenses generally available to guarantors or other considerations under applicable law or regulation.

(2) The provisions of the preceding paragraph will not be applicable to any guarantee of any Restricted Subsidiary existing on the Issue Date or that existed at the time such Person became a Restricted Subsidiary if the guarantee was not Incurred in connection with, or in contemplation of, such Person becoming a Restricted Subsidiary.

(3) Any Guarantee of the Notes granted pursuant to the provisions described in the first paragraph of this covenant may provide by its terms that it will be automatically and unconditionally released and discharged on the terms and conditions and in the circumstances described under the heading *"—Guarantees—Release of the Guarantees*." A Guarantee of a future Guarantor may also be released at the option of the Issuer if at the date of such release there is no Debt of such Guarantor outstanding which was Incurred after the Issue Date and which could not have been Incurred in compliance with the Indenture as at the date of such release if such Guarantor were not designated as a Guarantor as at that date. The Trustee shall take all necessary actions to effectuate any release of any Guarantee of the Notes in accordance with these provisions, subject to customary protections and indemnifications.

(4) Subject to the Intercreditor Agreement and any Additional Intercreditor Agreement, each Guarantor will provide a first-ranking share charge over all of the issued ordinary share capital that such Guarantor holds in any Restricted Subsidiary that provides a Guarantee pursuant to paragraph (1) above, promptly after such Restricted Subsidiary becomes a Guarantor, such share charge to form part of the Collateral.

(5) Notwithstanding the foregoing, the Issuer will not be obligated to cause such Restricted Subsidiary to guarantee the Notes or provide security in accordance with paragraph (4) above to the extent such Guarantee or provision of security would reasonably be expected (as determined in good faith by the Issuer) to give rise to or result in (a) any conflict with or violation of applicable law, rule, regulation or order; (b) any risk of liability (civil, criminal, administrative or other) for the officers, directors, shareholders or partners of such Restricted Subsidiary; or (c) any cost, expense, liability or obligation (including with respect to any Taxes but excluding any reasonable guarantee or similar fee payable to the Issuer or any Restricted Subsidiary) other than reasonable expenses and other than reasonable governmental expenses incurred in connection with any governmental or regulatory filings required as a result of, or any measures pursuant to the first paragraph of this covenant undertaken in connection with, such Guarantee.

Limitation on Dividends and Other Payment Restrictions Affecting Restricted Subsidiaries

(1) The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, create or otherwise cause or suffer to exist or become effective any consensual encumbrance or restriction of any kind on the ability of any Restricted Subsidiary to:

(a) pay dividends, in cash or otherwise, or make any other distributions on or in respect of its Capital Stock or any other interest or participation in, or measured by, its profits;

(b) pay any Debt owed to the Issuer or any other Restricted Subsidiary;

(c) make loans or advances to the Issuer or any other Restricted Subsidiary; or

(d) transfer any of its properties or assets to the Issuer or any other Restricted Subsidiary,

provided that (i) the priority of any Preferred Stock in receiving dividends or liquidating distributions prior to dividends or liquidating distributions being paid on common stock and (ii) the subordination of (including the application of any standstill requirements to) loans or advances made to the Issuer or any Restricted Subsidiary to other Debt Incurred by the Issuer or any Restricted Subsidiary, in each case, shall not be deemed to constitute such an encumbrance or restriction.

(2) The provisions of the "*Limitation on Dividends and Other Payment Restrictions Affecting Restricted Subsidiaries*" covenant described in paragraph (1) above will not apply to:

(a) encumbrances and restrictions imposed by the Notes, the Indenture, the Guarantees, the Intercreditor Agreement, any Additional Intercreditor Agreement, the Security Documents or the Amended and Restated Senior Credit Facility;

(b) encumbrances or restrictions imposed by Debt permitted to be Incurred under Credit Facilities or any guarantee thereof in accordance with the "*Limitation on Debt*" covenant or pursuant to paragraph (2) of such "*Limitation on Debt*" covenant; *provided* that in the case of any such encumbrances or restrictions imposed under any Credit Facilities, such encumbrances or restrictions taken as a whole are not materially less favourable to the Holders taken as a whole than those imposed by the Amended and Restated Senior Credit Facility as at the Issue Date (as determined in good faith by the Issuer);

(c) encumbrances or restrictions contained in any agreement or instrument in effect on the Issue Date;

(d) with respect to restrictions or encumbrances referred to in clause (1)(d) above, encumbrances and restrictions: (i) that restrict in a customary manner the subletting, assignment or transfer of any properties or assets that are subject to a lease, sublease, license, sublicense, conveyance or other similar agreement to which the Issuer or any Restricted Subsidiary is a party; or (ii) contained in operating leases for real property and restricting only the transfer of such real property upon the occurrence and during the continuance of a default in the payment of rent;

(e) encumbrances or restrictions contained in any agreement or other instrument of a Person or relating to assets acquired by the Issuer or any Restricted Subsidiary in effect at the time of such acquisition (but not created in contemplation thereof), which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person, or the property or assets of the Person, so acquired;

(f) encumbrances or restrictions contained in contracts for sales of Capital Stock or assets permitted by the "*Limitation on Asset Sales*" covenant with respect to the assets or Capital Stock to be sold pursuant to such contract or in customary merger or acquisition agreements (or any option to enter into such contract) for the purchase or acquisition of Capital Stock or assets or any of the Issuer's Subsidiaries by another Person;

(g) encumbrances or restrictions imposed by applicable law or regulation or by governmental licenses, authorisations, concessions, franchises or permits;

(h) encumbrances or restrictions on cash or other deposits or net worth imposed by customers or suppliers or surety, insurance or bonding companies under contracts entered into the ordinary course of business;

(i) customary limitations on the distribution or disposition of assets or property of a Restricted Subsidiary in joint venture agreements, asset sale agreements, sale-leaseback agreements, stock sale agreements and other similar agreements entered into the ordinary course of business and in good faith; *provided* that:

(i) the encumbrance or restriction is not materially less favourable to the Holders taken as a whole than is customary in comparable agreements (as determined in good faith by the Issuer); and

(ii) the Issuer determines in good faith that any such encumbrance or restriction will not materially affect the ability of the Issuer or any Guarantor to make any principal or interest payments on the Notes;

(j) customary encumbrances or restrictions in connection with purchase money obligations, mortgage financings and Capitalised Lease Obligations for property acquired in the ordinary course of business;

(k) any encumbrance or restriction arising by reason of customary non-assignment or similar provisions in agreements;

(l) any encumbrance or restriction arising pursuant to an agreement or instrument relating to any Debt not prohibited from being Incurred after the Issue Date pursuant to the provisions of the covenant described under "—*Limitation on Debt*:" (i) if the encumbrances and restrictions contained in any such agreement or instrument taken as a whole are not materially less favourable to the Holders taken as a whole than the encumbrances and restrictions contained in the Indenture (as determined in good faith by the Issuer); or (ii) if such encumbrance or restriction is not materially more disadvantageous to the holders of the Notes than is customary in comparable financings (as determined in good faith by the Issuer);

(m) with respect to restrictions or encumbrances referred to in clause (1)(d) above, encumbrances or restrictions existing by reason of any Lien permitted under "—*Limitation on Liens*";

(n) any encumbrance or restriction pursuant to any Hedging Agreements;

(o) any encumbrance or restriction pursuant to customary provisions restricting dispositions of real property interests set forth in any reciprocal easements agreements of the Issuer or any Restricted Subsidiary;

(p) any encumbrance or restriction that arises or is agreed to in the ordinary course of business and does not detract from the value of property or assets of the Issuer or any Restricted Subsidiary in any manner material to the Issuer or such Restricted Subsidiary (as determined in good faith by the Issuer);

(q) any encumbrances or restrictions imposed by any amendments, modifications, restatements, renewals, extensions, increases, supplements, refundings, replacements or refinancings of the contracts, instruments or obligations referred to in clauses (a) through (p), or in this clause (q), of this paragraph (2); *provided* that such amendments, modifications, restatements, renewals, extension, increases, supplements, refundings, replacements or refinancings are, in the good faith judgment of the Issuer, no more restrictive (taken as a whole) with respect to such encumbrances or restrictions than those contained in the encumbrances or restrictions prior to such amendment, modification, restatement, renewal, extension, increase, supplement, refunding, replacement or refinancing.

Designation of Unrestricted and Restricted Subsidiaries

(1) The Issuer's Board of Directors may designate any Subsidiary (including newly acquired or newly established Subsidiaries) to cease to be a "Restricted Subsidiary" and instead to be an "Unrestricted Subsidiary", or may designate MHE JVCo to cease to be a "Restricted Subsidiary", in each case, only if:

(a) no Default has occurred and is continuing at the time of or after giving effect to such designation;

(b) the Issuer would be permitted to make an Investment at the time of designation (assuming the effectiveness of such designation) pursuant to the "*Limitation on Restricted Payments*" covenant (and may classify such amount within its capacity to make Restricted Payments and ability to make payments that would otherwise be Restricted Payments under the "*Limitation on Restricted Payments*" covenant as it sees fit) in an amount equal to the greater of (i) the net book value of the Issuer's interest in such Subsidiary calculated in accordance with IFRS or (ii) the Fair Market Value of the Issuer's interest in such Subsidiary (in each case, as determined by the Issuer in good faith); and

(c) the Issuer would be permitted under the Indenture to Incur at least £1.00 of additional Debt pursuant to the ratio set forth in paragraph (1) of the "*Limitation on Debt*" covenant at the time of such designation (assuming the effectiveness of such designation).

(2) In the event of any such designation, the Issuer will be deemed to have made an Investment constituting a Restricted Payment pursuant to the "*Limitation on Restricted Payments*"

covenant for all purposes of the Indenture in an amount equal to the greater of (i) the net book value of the Issuer's interest in such Subsidiary calculated in accordance with IFRS or (ii) the Fair Market Value of the Issuer's interest in such Subsidiary (in each case, as determined by the Issuer in good faith), and may classify such amount within its capacity to make Restricted Payments and permissions to make payments that would otherwise be Restricted Payments under the "*Limitation on Restricted Payments*" covenant as it sees fit.

(3) The Issuer's Board of Directors may designate any Unrestricted Subsidiary as a Restricted Subsidiary:

(a) if no Default or Event of Default has occurred and is continuing at the time of, or will occur and be continuing after giving effect to, such designation; and

(b) unless such designated Unrestricted Subsidiary shall not have any Debt outstanding (other than Debt that would be Permitted Debt), immediately before and after giving effect to such proposed designation, and after giving *pro forma* effect to the Incurrence of any such Debt of such designated Unrestricted Subsidiary as if such Debt was Incurred on the date of its designation as a Restricted Subsidiary, the Issuer could Incur at least £1.00 of additional Debt pursuant to the ratio set forth in paragraph (1) of the "*Limitation on Debt*" covenant.

(4) Any such designation as an Unrestricted Subsidiary or Restricted Subsidiary by the Issuer's Board of Directors will be evidenced to the Trustee by filing a resolution of the Issuer's Board of Directors with the Trustee giving effect to such designation and an Officer's Certificate certifying that such designation complies with the foregoing conditions, and giving the effective date of such designation. Any such filing with the Trustee must occur within 45 days after the end of the Issuer's fiscal half year in which such designation is made (or, in the case of a designation made during the second fiscal half year of the Issuer's fiscal year, within 90 days after the end of such fiscal year).

Reports to Holders

(1) So long as any Notes are outstanding, the Issuer will furnish to the Trustee:

(a) annual reports containing, to the extent applicable, the following information: (a) audited consolidated balance sheets of the Issuer as of the end of the two most recent fiscal years and audited consolidated income statements and statements of cash flow of the Issuer for the two most recent fiscal years, including complete notes to such financial statements and the report of the independent auditors on the financial statements; (b) an operating and financial review of the audited financial statements, including a discussion of the results of operations, financial condition, and liquidity and capital resources of the Issuer; (c) a description of the business of the Issuer; and (d) a description of management and shareholders, material debt instruments, material affiliate transactions, material risk factors and material subsequent events all in substantially the same form as presented in the Offering Memorandum, within 120 days following the end of each fiscal year; *provided* that the information in clause (d) may be provided in the notes to the audited financial statements.

(b) semi-annual financial information of the Issuer on a consolidated basis as of and for the period from the beginning of each year to the close of the first half period, together with comparable information for the corresponding period of the preceding year, and an operating and financial review of the financial statements, including a discussion of the results of operations, financial condition, and material changes in liquidity and financial resources of the Issuer within 90 days following the end of the fiscal half; and

(c) promptly after the occurrence of a material acquisition, disposition or restructuring, any change of the Chief Executive Officer or the Chief Financial Officer of the Issuer or a change in auditors of the Issuer or any other material event, a report containing a description of such event.

(2) No report need include separate financial statements for any Guarantors or non-Guarantor Subsidiaries of the Issuer or any disclosure with respect to the results of operations or any other financial or statistical disclosure not of a type included in this Offering Memorandum.

(3) At any time that any of the Issuer's subsidiaries are Unrestricted Subsidiaries and any such Unrestricted Subsidiary or a group of Unrestricted Subsidiaries, taken as a whole, constitutes a Significant Subsidiary of the Issuer, then the semi-annual and annual financial information required by the first paragraph of this "*Reports to Holders*" covenant will include a reasonably detailed presentation, either on the face of the financial statements or in the notes thereto, of the financial condition and results of operations of the Issuer and the Restricted Subsidiaries separate from the financial condition and results of operations of the Unrestricted Subsidiaries of the Issuer.

(4) For so long as it remains so listed, the Issuer will furnish to the Trustee such other information that is required to make publicly available under the requirements of the London Stock Exchange as a result of having its ordinary shares admitted for trading on such exchange. Notwithstanding paragraph (1) of this covenant, upon the Issuer complying with the public reporting requirements of the London Stock Exchange (regardless of whether the Issuer's ordinary shares are admitted for trading on such exchange), to the extent that such requirements include an obligation to prepare and make publicly available annual reports, information, documents and other reports, the Issuer will be deemed to have complied with the provisions contained in clauses (1)(a), (b) and (c) above.

(5) Notwithstanding the foregoing, the Issuer will be deemed to have provided such information to the Trustee, the holders of the Notes and prospective purchasers of the Notes if such information referenced above in clauses (1)(a), (b) and (c) above or alternatively, in the preceding paragraph, has been posted on the Issuer's website.

Statement as to Compliance

The Issuer will deliver to the Trustee no later than the date on which the Issuer is required to deliver annual reports pursuant to the covenant described under "*—Reports to Holders*" above, an Officer's Certificate stating that in the course of the performance by the relevant officers of their respective duties as an officer of the Issuer they would normally have knowledge of any Default and whether or not such officers know of any Default that occurred during such period and, if any, specifying such Default, its status and what action the Issuer is taking or proposes to take with respect thereto.

Merger, Consolidation or Sale of Assets

Issuer

(1) The Issuer will not, directly or indirectly, in a single transaction or through a series of transactions, merge, consolidate, amalgamate or otherwise combine with or into any other Person or sell, assign, convey, transfer, lease or otherwise dispose of, or take any action pursuant to any resolution passed by the Issuer's Board of Directors or shareholders with respect to a demerger or division pursuant to which the Issuer would dispose of, all or substantially all of the Issuer's and the Restricted Subsidiaries' properties and assets, taken as a whole, to any other Person. The previous sentence will not apply if at the time and immediately after giving effect to any such transaction or series of transactions:

(a) either: (i) the Issuer will be the continuing corporation; or (ii) the Person (if other than the Issuer) formed by or surviving any such merger, consolidation, amalgamation or other combination or to which such sale, assignment, conveyance, transfer, lease or disposition of all or substantially all of the properties and assets of the Issuer and the Restricted Subsidiaries, taken as a whole, has been made (the "Surviving Entity"):

(x) will be a corporation duly incorporated and validly existing under the laws of any member state of the European Union as at the Issue Date, the United States of America, any state thereof, or the District of Columbia, Canada or any province of Canada, Norway or Switzerland; and

(y) will expressly assume, by a supplemental indenture, an accession agreement or one or more other documents or instruments, each in a form reasonably satisfactory to the Trustee, the Issuer's obligations under the Notes, the Indenture, the Intercreditor Agreement, any Additional Intercreditor Agreement and the Security Documents, as applicable;

(b) immediately after giving effect to such transaction or series of transactions on a *pro forma* basis (and treating any Debt of the Issuer or any Restricted Subsidiary Incurred in connection with or as a result of such transaction or series of transactions as having been Incurred by the Issuer or such Restricted Subsidiary at the time of such transaction), no Default or Event of Default will have occurred and be continuing;

(c) immediately after giving effect to such transaction or series of transactions on a *pro forma* basis (on the assumption that the transaction or series of transactions occurred on the first day of the fiscal half immediately prior to the consummation of such transaction or series of transactions with the appropriate adjustments with respect to the transaction or series of transactions being included in such *pro forma* calculation), (i) the Issuer (or the Surviving Entity if the Issuer is not the continuing obligor under the Indenture) could Incur at least £1.00 of additional Debt pursuant to the ratio set forth in paragraph (1) of the "*Limitation on Debt*" covenant or (ii) the Fixed Charge Coverage Ratio would not be lower than it was immediately prior to giving effect to such transaction; and

(d) the Issuer or the Surviving Entity has delivered to the Trustee an Officer's Certificate and an opinion of counsel, each stating that such merger, consolidation, amalgamation or other combination or sale, assignment, conveyance, transfer, lease or other disposition, and if a supplemental indenture is required in connection with such transaction, such supplemental indenture, comply with the requirements of the Indenture and that all conditions precedent in the Indenture relating to such transaction have been satisfied and that the Indenture and the Notes constitute legal, valid and binding obligations of the Issuer or the Surviving Entity, enforceable in accordance with their terms (subject to customary assumptions, exceptions, reservations and qualifications, in each case including as to enforceability).

(2) The Surviving Entity will succeed to, and be substituted for, and may exercise every right and power of, the Issuer under the Notes, the Indenture, the Intercreditor Agreement, any Additional Intercreditor Agreement and the Security Documents, *provided*, however, that in the case of a lease of all or substantially all of the Issuer's assets, the Issuer will not be released from the obligation to pay the principal of, premium, if any, and interest, on the Notes.

(3) Nothing in the Indenture will prevent (i) any Restricted Subsidiary from consolidating with, merging into or transferring all or substantially all of its properties and assets to the Issuer, a Guarantor or any other Restricted Subsidiary or (ii) the Issuer from consolidating or otherwise combining with or merging into an Affiliate incorporated or organised for the purpose of changing the legal domicile of the Issuer, reincorporating the Issuer in another jurisdiction or changing the legal form of the Issuer, *provided* the requirements of clauses (a)(x) and (d) of paragraph (1) above are satisfied, *mutatis mutandis*.

For as long as the Notes are listed on the Official List of the Exchange and to the extent that the rules of the Exchange so require, the Issuer will notify the Exchange of any such merger, consolidation, amalgamation or other combination or sale.

Guarantors

(1) Subject to the provisions described under "*—Guarantees—Release of the Guarantees*," no Guarantor will, directly or indirectly, in a single transaction or through a series of transactions, merge, consolidate, amalgamate or otherwise combine with or into any other Person or sell, assign, convey, transfer, lease or otherwise dispose of, or take any action pursuant to any resolution passed by such Guarantor's Board of Directors or shareholders with respect to a demerger or division pursuant to which such Guarantor will dispose of, all or substantially all of such Guarantor's properties and assets to any other Person. The previous sentence will not apply if at the time and immediately after giving effect to any such transaction or series of transactions:

(a) either: (i) such Guarantor is the surviving corporation, or (ii) the Person formed by or surviving any such consolidation or merger (if other than such Guarantor) or to which such sale, assignment, transfer, lease, conveyance or other disposition will have been made is a corporation organised or existing under the laws of any member state of the

European Union as at the Issue Date, the United States of America, any state thereof, or the District of Columbia, Canada or any province of Canada, Norway or Switzerland (such Guarantor or such Person, as the case may be, being herein called the "Successor Guarantor");

(b) the Successor Guarantor (if other than such Guarantor), by a supplemental indenture, an accession agreement or one or more other documents or instruments, each in a form reasonably satisfactory to the Trustee, expressly assumes the obligations of such Guarantor under its Guarantee, the Indenture, the Intercreditor Agreement, any Additional Intercreditor Agreement and the Security Documents, as applicable;

(c) immediately after giving *pro forma* effect to such transaction, no Default or Event of Default exists and is continuing; and

(d) the Guarantor or the Successor Guarantor has delivered to the Trustee an Officer's Certificate and an opinion of counsel, each stating that such merger, consolidation, amalgamation or other combination or sale, assignment, conveyance, transfer, lease or other disposition, and if a supplemental indenture is required in connection with such transaction, such supplemental indenture, comply with the requirements of the Indenture and that all conditions precedent in the Indenture relating to such transaction have been satisfied and that the Indenture and the Guarantee constitutes a legal, valid and binding obligation of the Guarantor or Successor Guarantor, enforceable in accordance with its terms (subject to customary assumptions, exceptions, reservations and qualifications, in each case including as to enforceability).

(2) The Successor Guarantor will succeed to, and be substituted for, and may exercise every right and power of, the relevant Guarantor under its Guarantee, the Indenture, the Intercreditor Agreement, any Additional Intercreditor Agreement and the Security Documents.

(3) Nothing in the Indenture will prevent any Restricted Subsidiary from consolidating with, merging into or transferring all or substantially all of its properties and assets to the Issuer, a Guarantor or any other Restricted Subsidiary.

Although there is a limited body of case law interpreting the phrase "all or substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve "all or substantially all" of the property or assets of a Person.

Limitation on Activities of the Issuer

The Issuer will not trade, carry on any business, own any assets or Incur any liabilities *except for*: (1) the provision of administrative or management services to any Subsidiary of a type customarily provided by a holding company to its Subsidiaries and the ownership of assets necessary to provide such services; (2) ownership of the Capital Stock in any Subsidiary, including without limitation any Subsidiary established for the purposes of any equity or debt fundraising which itself carries on no business or activity other than that fundraising, or any other Person; (3) Debt owed to, and credit balances with, its Subsidiaries, debit and credit balances in bank accounts and Investments in cash and Cash Equivalents; (4) the raising or issuing of Capital Stock, options, warrants or other rights to acquire Capital Stock; (5) the issuance of, entry into and performance of its obligations (and Incurrence of liabilities) under the Notes, the Indenture, the Amended and Restated Senior Credit Facility, any Hedging Obligations, any other Debt (including any Additional Notes) and all documents related thereto, or any other obligations or holding of receivables, in each case not prohibited by the Indenture, the Security Documents, the Intercreditor Agreement or any Additional Intercreditor Agreement, or any proceeds loans and all related activities relating to the foregoing; (6) transactions not prohibited by the covenant described under "*—Merger, Consolidation or Sale of Assets*"; (7) the granting of security interests in accordance with the terms of the Notes, the Indenture, the Amended and Restated Senior Credit Facility, any Hedging Obligations, any other Debt or any other obligations and the entry into all documents related thereto and the performance of its obligations related thereto, in each case not prohibited by the Indenture, the Security Documents, the Intercreditor Agreement or any Additional Intercreditor Agreement or any proceeds loans and all related activities relating to the foregoing; (8) professional fees and administration costs in the ordinary course of business of a holding company; (9) the appointment of, and payment of fees and other compensation to, its directors and officers; (10) the

provision of guarantees of Debt, leases and other contracts or obligations; (11) those related or reasonably incidental to the establishment or maintenance of its or its Subsidiaries' corporate existence; (12) any liabilities under any purchase agreement or any other document entered into in connection with the issuance of the Notes or the Incurrence of any other Debt not prohibited under the Indenture (including under the Amended and Restated Senior Credit Facility and any Additional Notes) and ownership of assets arising out of the loaning of the proceeds of the Incurrence of such Debt; or (13) any other activities which are not specifically listed above which are ancillary to or related to those listed above or which are immaterial to the holders of the Notes in the good faith determination of the Issuer.

Impairment of Security Interest

The Issuer shall not, and the Issuer shall not permit any Restricted Subsidiary to, take or knowingly or negligently omit to take any action, which action or omission would or is reasonably likely to, in each case, in the good faith determination of the Issuer, have the result of materially impairing the security interest with respect to the Collateral (it being understood that the incurrence of Permitted Collateral Liens or of Debt secured by the Collateral shall under no circumstances be deemed to materially impair the security interest with respect to the Collateral) for the benefit of the Trustee and the Holders, and the Issuer shall not, and the Issuer shall not permit any Restricted Subsidiary to, grant to any Person other than the Trustee, the Security Agent and the holders of the Notes (other than of any Additional Notes), the other beneficiaries described in the Security Documents and the Intercreditor Agreement or any Additional Intercreditor Agreement, any interest whatsoever in any of the Collateral (other than pursuant to a sale, lease, transfer, disposition, merger or conveyance not otherwise prohibited by the Indenture), *provided* that (a) nothing in this provision will restrict the discharge or release of the Collateral in accordance with the Indenture, the Security Documents, the Intercreditor Agreement or any Additional Intercreditor Agreement and (b) subject to the second paragraph of this covenant, the Issuer and the Restricted Subsidiaries may incur Permitted Collateral Liens.

The Indenture will provide that, at the direction of the Issuer and without the consent of the holders of the Notes, the Security Agent shall from time to time enter into one or more amendments, extensions, renewals, restatements, supplements, modifications or replacements to the Security Documents to: (i) cure any ambiguity, omission, defect or inconsistency therein, (ii) provide for Permitted Collateral Liens to the extent not prohibited under the Indenture (including by way of release and retaking of Security Documents), (iii) comply with the terms of the Intercreditor Agreement or any Additional Intercreditor Agreement, (iv) add to the Collateral, (v) evidence the succession of another Person to the Issuer, a Guarantor or any security provider, as applicable, and the assumption by such successor of the obligations under the Indenture, Notes or its Guarantee, as the case may be, the Intercreditor Agreement, any Additional Intercreditor Agreement and the Security Documents, as applicable, in each case, in accordance with the caption "*—Certain Covenants—Merger, Consolidation or Sale of Assets*", (vi) provide for the release of property and assets constituting Collateral from the Liens created under the Security Documents and/or the release of a Guarantor from its Guarantee of the Notes, in each case, in accordance with (and if permitted by) the terms of the Indenture, (vii) conform the Security Documents to this "*Description of the Notes*", (viii) evidence and provide for the acceptance of the appointment of a successor Security Agent, (ix) provide for Additional Notes or other Permitted Debt not prohibited by the Indenture that may be secured by Liens on the Collateral, to also benefit from the Collateral, or (x) make any other change thereto that does not adversely affect the holders of the Notes in any material respect (as determined in good faith by the Issuer); *provided,* however, that no Security Document may be amended, extended, renewed, restated, supplemented or otherwise modified or replaced (otherwise than for reasons specified in clauses (i), (iii) (in connection with any enforcement action) or (iv) through (x)), unless contemporaneously with such amendment, extension, renewal, restatement, supplement, modification or renewal, the Issuer delivers to the Trustee and the Security Agent, one of:

(a) a solvency opinion, in form and substance reasonably satisfactory to the Trustee, from an Independent Financial Advisor confirming the solvency of the Issuer and the Restricted Subsidiaries, taken as a whole, on a consolidated basis, in each case, after giving effect to any transaction related to such amendment, extension, renewal, restatement, supplement, modification or replacement;

(b) a certificate from the Board of Directors or responsible accounting or financial officer of the Issuer (acting in good faith) substantially in the form attached to the Indenture that confirms the solvency of the Issuer and the Restricted Subsidiaries, taken as a whole, on a consolidated basis, in each case, after giving effect to any transaction related to such amendment, extension, renewal, restatement, supplement, modification or replacement; or

(c) an opinion of counsel, in form and substance reasonably satisfactory to the Trustee (subject to customary assumptions, exceptions, reservations and qualifications), confirming that, after giving effect to any transactions related to such amendment, extension, renewal, restatement, supplement, modification or replacement, the security interest or security interests created under the Security Documents so amended, extended, renewed, restated, supplemented, modified or replaced are valid security interests not otherwise subject to any limitation, imperfection or new hardening period, in equity or at law that such security interest or security interests were not otherwise subject to immediately prior to such amendment, extension, renewal, restatement, supplement, modification or replacement.

In the event that this covenant is complied with, the Trustee shall (subject to customary protections and indemnifications) consent to and instruct the Security Agent to enter into all necessary documentation to implement such amendment, extension, renewal, restatement, supplement, modification or replacement without the need for instructions from the Holders.

Additional Intercreditor Agreements; Agreement to be Bound

The Indenture will provide that, at the request of the Issuer and without the consent of Holders, in connection with the Incurrence by the Issuer or any Guarantor of any Debt not prohibited by the covenant described under the caption "*—Certain Covenants—Limitation on Debt*" (and, in each case, such Debt shall be (x) Senior Debt of the Issuer or a Guarantor or (y) Subordinated Debt of the Issuer or a Guarantor), the Issuer, the relevant Guarantors, the Trustee and, if applicable, the Security Agent shall enter into with the holders of such Debt (or their duly authorised Representatives) an amended and/or restated Intercreditor Agreement or an additional intercreditor agreement (an "Additional Intercreditor Agreement") containing substantially the same terms as the Intercreditor Agreement (or terms more favourable to the Holders) including with respect to the subordination, payment blockage, limitation on enforcement and release of guarantees (or such other terms or with such changes as are necessary to facilitate compliance with the covenant described under the caption "*—Certain Covenants—Limitation on Guarantees of Debt and Security by Restricted Subsidiaries*") and priority and release of the Security Documents (or such other terms or with such changes as the Issuer may in good faith determine to be necessary or appropriate relating to the Security Documents, in connection with the Incurrence of such Debt, *provided* that such other terms are not materially more adverse to the Holders taken as a whole than the terms contained in the Intercreditor Agreement); *provided*, that such Additional Intercreditor Agreement will not impose any personal obligations on the Trustee or the Security Agent or adversely affect the rights, duties, liabilities or immunities of the Trustee or the Security Agent under the Indenture or the Intercreditor Agreement without the consent of the Trustee and the Security Agent. Pursuant to any such Additional Intercreditor Agreements, such other Debt may constitute Senior Debt or Subordinated Debt of the Issuer or a Guarantor. If more than one such intercreditor agreement is outstanding at any one time, the collective terms of such intercreditor agreements must not conflict in any material respect.

The Indenture also will provide that, at the direction of the Issuer and without the consent of Holders, the Trustee and the Security Agent shall subject to the terms of the Intercreditor Agreement from time to time enter into one or more amendments to any Intercreditor Agreement or Additional Intercreditor Agreement to: (1) cure any ambiguity, manifest error, omission, defect or inconsistency of any Intercreditor Agreement or any Additional Intercreditor Agreement, (2) increase the amount of Debt of the types covered by any Intercreditor Agreement or any Additional Intercreditor Agreement that may be Incurred by the Issuer or any of its Restricted Subsidiaries that is subject to any Intercreditor Agreement or any Additional Intercreditor Agreement (including the addition of provisions relating to new Debt that is contractually subordinated in right of payment to the Notes or its Guarantee, as the case may be, as applicable), (3) add Guarantors to any Intercreditor Agreement or an Additional Intercreditor Agreement, (4) add security to or for the benefit of the Notes (including Additional Notes), or confirm and evidence the release, termination or discharge of any Notes, its Guarantee, or any Lien (including Liens on the Collateral and the Security Documents) when such release, termination or

discharge is provided for or not prohibited under the Indenture, any Intercreditor Agreement or any Additional Intercreditor Agreement, (5) make provision for charges of the Collateral securing Additional Notes to rank *pari passu* with the Liens under the Security Documents or to implement any Permitted Collateral Liens, (6) provide for the assumption by a successor of the obligations of the Issuer under any Intercreditor Agreement or any Additional Intercreditor Agreement, (7) make any change in the subordination provisions of any Intercreditor Agreement or any Additional Intercreditor Agreement that would limit or terminate the benefits available to any holder of Senior Debt of a Guarantor (or any Representative thereof) under such subordination provisions or as otherwise permitted by any Intercreditor Agreement or Additional Intercreditor Agreement, (8) conform the text of any Intercreditor Agreement or Additional Intercreditor Agreement to any provision of this "*Description of the Notes*", or (9) make any other change to any Intercreditor Agreement or Additional Intercreditor Agreement that does not materially adversely affect the Holders. The Issuer shall not otherwise request the Trustee and the Security Agent to enter into any amendment to any Intercreditor Agreement or Additional Intercreditor Agreement without the consent of the Holders of a majority in aggregate principal amount of the Notes then outstanding, except as otherwise permitted below under "*—Amendments and Waivers*," and the Issuer may only request the Trustee and the Security Agent to enter into any amendment to the extent such amendment does not impose any personal obligations on the Trustee and the Security Agent or adversely affect the rights, duties, liabilities or immunities of the Trustee and the Security Agent under the Indenture or any Intercreditor Agreement or an Additional Intercreditor Agreement.

The Indenture shall also provide that, in relation to any Intercreditor Agreement or an Additional Intercreditor Agreement, no consent on behalf of the Holders to the payment, repayment, purchase, repurchase, defeasance, acquisition, retirement or redemption of any obligations subordinated to the Notes thereby will be required; *provided*, however, that such transaction would comply with the covenant described under the caption "*—Certain Covenants—Limitation on Restricted Payments*".

The Indenture will also provide that each Holder, by accepting a Note, shall be deemed to have agreed to and accepted the terms and conditions of each Intercreditor Agreement or an Additional Intercreditor Agreement (whether then entered into or entered into in the future pursuant to the provisions described herein) and to have irrevocably appointed and authorised the Trustee to give effect to the provisions in the Intercreditor Agreement or Additional Intercreditor Agreement and to act on its behalf to enter into and comply with the provisions of such Intercreditor Agreement or Additional Intercreditor Agreement.

A copy of each Intercreditor Agreement or an Additional Intercreditor Agreement shall be made available for inspection during normal business hours on any Business Day upon prior written request at the offices of the Issuer or at the offices of the listing agent.

Suspension of Covenants on Achievement of Investment Grade Status

If on any date following the Issue Date, the Notes have achieved Investment Grade Status and no Default or Event of Default has occurred and is continuing (a "Suspension Event"), then, beginning on that day and continuing until such time, if any, at which the Notes cease to have Investment Grade Status (the "Reversion Date"), the provisions of the Indenture summarized under the following captions will not apply to the Notes:

(1) "*—Limitation on Restricted Payments*";

(2) "*—Limitation on Debt*";

(3) "*—Limitation on Dividends and Other Payment Restrictions Affecting Restricted Subsidiaries*";

(4) "*—Limitation on Transactions with Affiliates*";

(5) "*—Limitation on Guarantees of Debt and Security by Restricted Subsidiaries*";

(6) clause (1)(c) of "*—Merger, Consolidation or Sale of Assets*" in respect of each of the Issuer and the Guarantors;

(7) "*—Limitation on Asset Sales*";

(8) "*—Designation of Unrestricted and Restricted Subsidiaries";* and

(9) *"—Limitation on Activities of the Issuer".*

and, in each case, any related default provision of the Indenture will cease to be effective and will not be applicable to the Issuer and the Restricted Subsidiaries.

During any period that the foregoing covenants have been suspended, neither the Issuer nor any Restricted Subsidiary may designate any of its Subsidiaries as Unrestricted Subsidiaries pursuant to the covenant described under the caption "*—Designation of Unrestricted and Restricted Subsidiaries*", unless such designation would have complied with the covenant described under the caption "*—Limitation on Restricted Payments*" as if such covenant would have been in effect during such period.

Such covenants and any related default provisions will again apply according to their terms from the first day on which a Suspension Event ceases to be in effect. Such covenants will not, however, be of any effect with regard to actions of the Issuer or the Restricted Subsidiaries properly taken during the continuance of the Suspension Event, and no action taken prior to the Reversion Date will constitute a Default or Event of Default. The "*Limitation on Restricted Payments*" covenant will be interpreted as if it has been in effect since the date of the Indenture but not during the continuance of the Suspension Event. On the Reversion Date, all Debt Incurred during the continuance of the Suspension Event will be deemed to have been outstanding on the Issue Date, so that it is classified as permitted under clause (c) of the second paragraph of the covenant described under "*—Limitation on Debt*". In addition, the Indenture will also permit, without causing a Default or Event of Default, the Issuer or any of the Restricted Subsidiaries to honour any contractual commitments or take actions in the future after any date on which the Notes cease to have an Investment Grade Status as long as the contractual commitments were entered into during the Suspension Event and not in anticipation of the Notes no longer having an Investment Grade Status. Upon the occurrence of a Suspension Event, the amount of Excess Proceeds shall be reset at zero. The Issuer shall notify the Trustee that the conditions set forth in the first paragraph under this caption has been satisfied, *provided* that, no such notification shall be a condition for the suspension of the covenants described under this caption to be effective. There can be no assurance that the Notes will ever achieve or maintain an Investment Grade Status.

Financial calculations for Limited Condition Acquisitions

When calculating the availability under any basket or ratio under the Indenture, in each case in connection with a Limited Condition Acquisition, the date of determination of such basket or ratio and of any Default or Event of Default shall, at the option of the Issuer, be the date the definitive agreements for such Limited Condition Acquisition are entered into and such baskets or ratios shall be calculated on a *pro forma* basis after giving effect to such Limited Condition Acquisition and the other transactions to be entered into in connection therewith (including any Incurrence of Debt and the use of proceeds thereof) as if they occurred at the beginning of the applicable reference period for purposes of determining the ability to consummate any such Limited Condition Acquisition (and not for purposes of any subsequent availability of any basket or ratio).

For the avoidance of doubt, (x) if any of such baskets or ratios are exceeded as a result of fluctuations in such basket or ratio (including due to fluctuations in Consolidated EBITDA, Consolidated Fixed Charges or Consolidated Total Assets of the Issuer or the target company) subsequent to such date of determination and at or prior to the consummation of the relevant Limited Condition Acquisition, such baskets or ratios will not be deemed to have been exceeded as a result of such fluctuations solely for purposes of determining whether the Limited Condition Acquisition and the related transactions are permitted hereunder and (y) such baskets or ratios shall not be tested at the time of consummation of such Limited Condition Acquisition or related transactions; *provided*, further, that if the Issuer elects to have such determinations occur at the time of entry into such definitive agreement, any such transactions (including any Incurrence of Debt and the use of proceeds thereof) shall be deemed to have occurred on the date the definitive agreements are entered into and outstanding thereafter for purposes of calculating any baskets or ratios under the Indenture after the date of such agreement and before the consummation of such Limited Condition Acquisition.

Events of Default

Each of the following will be an "Event of Default" under the Indenture:

(a) default for 30 days in the payment when due of any interest or any Additional Amounts on any Note;

(b) default in the payment of the principal of or premium, if any, on any Note at its Maturity (upon acceleration, optional or mandatory redemption, if any, required repurchase or otherwise);

(c) failure by the Issuer to comply with the provisions of "*—Certain Covenants—Merger, Consolidation or Sale of Assets*;"

(d) failure to comply with any covenant or agreement of the Issuer or of any Restricted Subsidiary that is contained in the Indenture (other than specified in clause (a), (b) or (c) (solely as it relates to the Issuer) above) and such failure continues for a period of 60 days after notice by the Trustee or the Holders of at least 25% in principal amount of the outstanding Notes;

(e) default under the terms of any instrument evidencing or securing the Debt for borrowed money (other than any such Debt owed to the Issuer or any Restricted Subsidiary) of the Issuer or any Restricted Subsidiary, if that default:

   (i) results in the acceleration of the payment of such Debt; or

   (ii) is caused by the failure to pay such Debt at final maturity thereof after giving effect to the expiration of any applicable grace periods (and other than by regularly scheduled required prepayment) and such failure to make any payment has not been waived or the maturity of such Debt has not been extended (a "Payment Default"),

   and, in each case, the principal amount of any such Debt, together with the principal amount of any other such Debt under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates £20.0 million or more;

(f) any Guarantee by any Guarantor that is a Significant Subsidiary ceases to be, or shall be asserted in writing by any Guarantor that is a Significant Subsidiary, or any Person acting on behalf of any Guarantor that is a Significant Subsidiary, not to be in full force and effect or enforceable in accordance with its terms (other than as provided for in the Indenture or any Guarantee), if such Default continues for 10 days;

(g) one or more final judgments, orders or decrees (not subject to appeal and not covered by insurance) shall have been rendered against the Issuer or any Restricted Subsidiary for the payment of money either individually or in an aggregate amount, in each case in excess of £20.0 million (after deducting any insurance or indemnity or contribution amounts actually recovered by the Issuer or a Restricted Subsidiary within 60 days of such judgment, order or decree), and either a creditor shall have commenced an enforcement proceeding upon such judgment, order or decree or there shall have been a period of 60 consecutive days or more during which a stay of enforcement of such judgment, order or decree was not (by reason of pending appeal or otherwise) in effect;

(h) the occurrence of certain events of bankruptcy, insolvency, receivership, schemes of arrangement (where any creditors are materially impaired) or reorganization with respect to the Issuer, any Significant Subsidiary, or of other Restricted Subsidiaries that are not Significant Subsidiaries but would, in the aggregate, when taken together (as of the end of the most recently completed fiscal period) constitute a Significant Subsidiary if considered as a single Person; and

(i) any security interest under the Security Documents shall, at any time, cease to be in full force and effect (other than in accordance with the terms of the relevant Security Document, the Intercreditor Agreement, any Additional Intercreditor Agreement or the Indenture, as applicable) with respect to Collateral having a Fair Market Value in excess of £10.0 million for any reason other than the satisfaction in full of all obligations under the Indenture or the release of any such security interest in accordance with the terms of the Indenture, the Intercreditor Agreement, any Additional Intercreditor Agreement or the Security Documents, as applicable, or any such security interest created thereunder shall be declared by a court of competent jurisdiction to be invalid or unenforceable or the Issuer or any Restricted Subsidiary shall assert in writing that any such security interest is invalid or unenforceable and any such Default continues for 10 days.

However, a Default under clauses (d), (e) or (g) above will not constitute an Event of Default until the Trustee or the Holders of 25% in principal amount of the outstanding Notes under the Indenture notify the Issuer of the Default and, with respect to clauses (d) and (g) the Issuer does not cure such default within the time specified in clauses (d) or (g) above, as applicable, after receipt of such notice.

If an Event of Default (other than as specified in clause (h) above) occurs and is continuing, the Trustee or the Holders of not less than 25% in aggregate principal amount of the Notes then outstanding by written notice to the Issuer (and to the Trustee if such notice is given by the Holders) may, and the Trustee, upon the written request of such Holders, shall, declare the principal of, premium, if any, any Additional Amounts and accrued interest on all of the outstanding Notes immediately due and payable, and upon any such declaration all such amounts payable in respect of the Notes will become immediately due and payable.

If an Event of Default specified in clause (h) above occurs and is continuing, then the principal of, premium, if any, Additional Amounts and accrued and unpaid interest on all of the outstanding Notes shall become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder of Notes.

In the event of a declaration of acceleration of the Notes because an Event of Default described in clause (e) under "Events of Default" has occurred and is continuing, the declaration of acceleration of the Notes shall be automatically annulled if the event of default or payment default triggering such Event of Default pursuant to clause (e) shall be remedied or cured, or waived by the holders of the Debt, or the Debt that gave rise to such Event of Default shall have been discharged in full, within 30 days after the declaration of acceleration with respect thereto and if (1) the annulment of the acceleration of the Notes would not conflict with any judgment or decree of a court of competent jurisdiction and (2) all existing Events of Default, except non-payment of principal, premium or interest on the Notes that became due solely because of the acceleration of the Notes, have been cured or waived.

The Holders of not less than a majority in aggregate principal amount of the outstanding Notes may, on behalf of the Holders of all of the Notes, waive any past defaults under the Indenture (except a default in the payment of the principal of, premium, if any, and Additional Amounts or interest on any Note in which case, the consent of the holders of 90% of the then outstanding Notes shall be required) and rescind any such acceleration with respect to such Notes and its consequences if such rescission would not conflict with any judgment or decree of a court of competent jurisdiction, and provided that the fees and expenses of the Trustee have been paid.

No Holder of any of the Notes has any right to institute any proceedings with respect to the Indenture or any remedy thereunder unless the holders of at least 25% in aggregate principal amount of the outstanding Notes have made a written request and offered an indemnity and/or security reasonably satisfactory to the Trustee to institute such proceedings as Trustee under the Notes and the Indenture, the Trustee has failed to institute such proceeding within 60 days after receipt of such notice and the Trustee within such 60-day period has not received directions inconsistent with such written request by holders of a majority in aggregate principal amount of the outstanding Notes. Such limitations do not, however, apply to a suit instituted by a Holder of a Note for the enforcement of the payment of the principal of, premium, if any, and Additional Amounts or interest on such Note on or after the respective due dates expressed in such Note.

If an Event of Default occurs and is continuing and notice from the Issuer is given to the Trustee in accordance with the notice provisions of the Indenture, the Trustee will deliver to each Holder of the Notes notice of the Event of Default within 60 Business Days after its occurrence. Except in the case of an Event of Default in the payment of principal of, premium, if any, Additional Amounts or interest on any Notes, the Trustee may withhold the giving of such notice to the holders of such Notes if it determines in good faith that withholding the giving of such notice is in the best interests of the holders of the Notes.

The Indenture will provide that (1) if a Default occurs for a failure to deliver a required certificate in connection with another default (an "Initial Default") then at the time such Initial Default is cured, such Default for a failure to report or deliver a required certificate in connection with the Initial Default will also be cured without any further action and (2) any Default or Event of Default for the failure to comply with the time periods prescribed in the covenant entitled "*—Certain Covenants—Reports to Holders*" or otherwise to deliver any notice or certificate pursuant to any other provision of the Indenture shall be deemed to be cured upon the delivery of any such report required by such covenant or notice or certificate, as applicable, even though such delivery is not within the prescribed period specified in the Indenture.

The Trustee may assume without inquiry, in the absence of actual knowledge, that the Issuer is duly complying with its obligations contained in the Indenture required to be observed and performed by it, and that no Default or Event of Default or other event that would require repayment of the Notes has occurred.

The Trustee is under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request or direction of any of the Holders of the Notes unless such holders provide to the Trustee indemnity and/or security satisfactory to the Trustee against the costs, expenses and liabilities which might be incurred thereby.

Defeasance

The Indenture will provide that the Issuer may, at its option and at any time prior to the Stated Maturity of the Notes, elect to have the obligations of the Issuer and the Guarantors discharged with respect to the outstanding Notes ("Legal Defeasance"). Legal Defeasance means that the Issuer will be deemed to have paid and discharged the entire Debt represented by the outstanding Notes except as to:

(a) the rights of holders of outstanding Notes to receive payments in respect of the principal of, premium, if any, Additional Amounts and interest on such Notes when such payments are due from the trust referred to below;

(b) the Issuer's obligations to issue temporary Notes, register, transfer or exchange any Notes, replace mutilated, destroyed, lost or stolen Notes, maintain an office or agency for payments in respect of the Notes and segregate and hold such payments on trust;

(c) the rights, powers, trusts, duties and immunities of the Trustee and the obligations of the Issuer and the Guarantors in connection therewith; and

(d) the Legal Defeasance provisions of the Indenture.

If the Issuer exercises its legal defeasance option, payment of the Notes may not be accelerated because of an Event of Default other than an Event of Default under clauses (a) or (b) of the definition thereof.

In addition, the Issuer may, at its option and at any time, elect to have the obligations of the Issuer and the Guarantors released with respect to certain covenants set forth in the Indenture ("Covenant Defeasance") and thereafter any failure to comply with such covenants will not constitute a Default or an Event of Default with respect to the Notes. In the event that a Covenant Defeasance occurs, certain events described under "—*Events of Default*" will no longer constitute an Event of Default with respect to the Notes. These events will not include events relating to non-payment, bankruptcy, insolvency, receivership and reorganization. The Issuer may exercise its Legal Defeasance option regardless of whether it has previously exercised any Covenant Defeasance.

In order to exercise either Legal Defeasance or Covenant Defeasance:

(a) the Issuer must irrevocably deposit or cause to be deposited on trust with the Trustee, or such other entity as may be designated for this purpose, for the benefit of the holders of the Notes, cash in Sterling, U.K. Government Obligations or a combination thereof, in such amounts as will be sufficient, in the opinion of an internationally recognized firm of independent public accountants, to pay and discharge the principal of, premium, if any, Additional Amounts and interest, on the outstanding Notes on the Stated Maturity or on the applicable redemption date, as the case may be, and the Issuer must:

    (i) specify whether the Notes are being defeased to maturity or to a particular redemption date; and

    (ii) if applicable, have delivered to the Trustee an irrevocable notice to redeem all of the outstanding Notes;

(b) in the case of Legal Defeasance, the Issuer must have delivered to the Trustee an opinion of counsel reasonably acceptable to the Trustee stating that: (i) the Issuer has received from, or there has been published by, the U.S. Internal Revenue Service a ruling; or (ii) since the Issue Date, there has been a change in applicable U.S. federal income tax law, in either case to the

effect that (and based thereon such opinion shall confirm that) the beneficial owners of the outstanding Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Legal Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

(c) in the case of Covenant Defeasance, the Issuer must deliver to the Trustee an opinion of counsel reasonably acceptable to the Trustee confirming that the holders of the outstanding Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Covenant Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

(d) no Default or Event of Default will have occurred and be continuing: (i) on the date of such deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit); or (ii) insofar as bankruptcy or insolvency events described in clause (h) of "—*Events of Default*" above are concerned, at any time during the period ending on the 123rd day after the date of such deposit;

(e) such Legal Defeasance or Covenant Defeasance will not result in a breach or violation of, or constitute a Default under (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit), the Indenture or any material agreement or instrument to which the Issuer or any Restricted Subsidiary is a party or by which the Issuer or any Restricted Subsidiary is bound;

(f) the Issuer must have delivered to the Trustee an opinion of counsel (subject to customary assumptions, exceptions, reservations and qualifications, in each case including as to enforceability) in the country of the Issuer's incorporation to the effect that after the 123rd day following the deposit, the trust funds will not be subject to the effect of any applicable bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally and an opinion of counsel (subject to customary assumptions, exceptions, reservations and qualifications, in each case including as to enforceability) reasonably acceptable to the Trustee that the Trustee shall have a perfected security interest in such trust funds for the ratable benefit of the holders of the Notes;

(g) the Issuer must have delivered to the Trustee an Officer's Certificate stating that the deposit was not made by the Issuer with the intent of preferring the holders of the Notes over the other creditors of the Issuer with the intent of defeating, hindering, delaying or defrauding creditors of the Issuer or other creditors, or removing assets beyond the reach of the relevant creditors or increasing debts of the Issuer to the detriment of the relevant creditors;

(h) no event or condition exists that would prevent the Issuer from making payments of the principal of, premium, if any, Additional Amounts and interest on the Notes on the date of such deposit or at any time ending on the 123rd day after the date of such deposit; and

(i) the Issuer must have delivered to the Trustee an Officer's Certificate and an opinion of counsel, each stating that all conditions precedent provided for relating to the Legal Defeasance or the Covenant Defeasance, as the case may be, have been complied with.

If the funds deposited with the Trustee or such other entity to effect Covenant Defeasance are insufficient to pay the principal of, premium, if any, Additional Amounts and interest on the Notes when due because of any acceleration occurring after an Event of Default, then the Issuer and the Guarantors will remain liable for such payments.

Satisfaction and Discharge

The Indenture will be discharged and will cease to be of further effect (except as to surviving rights of registration of transfer or exchange of the Notes as expressly provided for in the Indenture) when:

(a) the Issuer has irrevocably deposited or caused to be deposited with the Trustee (or such other entity as is designated for this purpose) as funds on trust for such purpose an amount in Sterling or U.K. Government Obligations sufficient to pay and discharge the entire Debt on such Notes that have not, prior to such time, been delivered to the Trustee for cancellation, for principal of, premium, if any, and any Additional Amounts and accrued and unpaid interest on

the Notes to the date of such deposit (in the case of Notes which have become due and payable) or to the Stated Maturity or redemption date, as the case may be, and the Issuer has delivered irrevocable instructions to the Trustee under the Indenture to apply the deposited money toward the payment of Notes at Stated Maturity or on the redemption date, as the case may be and either:

(i) all of the Notes that have been authenticated and delivered (other than destroyed, lost or stolen Notes that have been replaced or paid and Notes for which payment money has been deposited on trust or segregated and held on trust by the Issuer and thereafter repaid to the Issuer or discharged from such trust as provided for in the Indenture) have been delivered to the Paying Agent for cancellation; or

(ii) all Notes that have not been delivered to the Paying Agent for cancellation: (x) have become due and payable (by reason of the mailing of a notice of redemption or otherwise); (y) will become due and payable within one year of Stated Maturity; or (z) are to be called for redemption within one year of the proposed discharge date under arrangements reasonably satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the Issuer's name and at the Issuer's expense;

(b) the Issuer has paid or caused to be paid all other sums payable by the Issuer under the Indenture;

(c) the Issuer has delivered irrevocable instructions to the Trustee to apply the deposited money toward the payment of the Notes at maturity or on the redemption date, as the case may be; and

(d) the Issuer has delivered to the Trustee an Officer's Certificate and an opinion of counsel (subject to customary assumptions, exceptions, reservations and qualifications, in each case including as to enforceability), each stating that:

(i) all conditions precedent provided in the Indenture relating to the satisfaction and discharge of the Indenture have been satisfied; and

(ii) such satisfaction and discharge will not result in a breach or violation of, or constitute a default under, the Indenture or any other material agreement or instrument to which the Issuer or any Guarantor is a party or by which the Issuer or any Guarantor is bound.

The Trustee shall be entitled to rely conclusively on such Officer's Certificate and opinion of counsel without independent verification, *provided* that any such counsel may rely on an Officer's Certificate as to matters of fact) (including as to compliance with the foregoing clauses (a), (b) and (c)).

If requested by the Issuer, the Trustee may distribute any amounts deposited on trust to the holders of the Notes prior to maturity or the redemption date, as the case may be. In such case, the payment to each Holder will equal the amount such Holder would have been entitled to receive at maturity or on the relevant redemption date, as the case may be.

Amendments and Waivers

With the consent of the holders of not less than a majority in aggregate principal amount of the Notes then outstanding (including consents obtained in connection with a purchase of, or tender offer or exchange offer for, such Notes), the Issuer, the Guarantors and the Trustee are permitted to amend or supplement the Indenture, the Notes, the Intercreditor Agreement, any Additional Intercreditor Agreement, the Guarantees or the Security Documents or waive any default or compliance with any provisions thereof (unless a modification or amendment will only affect one series of the Notes, in which case only the consent of the holders of at least a majority in aggregate principal amount of the Notes then outstanding in such series shall be required); *provided* that no such modification, amendment or waiver may, without the consent of Holders holding not less than 90% of the then outstanding principal amount of the Notes then outstanding (or, if a modification or amendment will only affect one series of the Notes, the consent of the holders of at least 90% of the aggregate principal amount of the Notes then outstanding in such series):

(a) extend the Stated Maturity of the principal of, or any installment of or Additional Amounts or interest on, any Note (or change any Default or Event of Default under clause (a) of the definition thereof related thereto);

(b) reduce the principal amount of any Note (or Additional Amounts or premium, if any) or the rate of or extend the stated time for payment of interest on any Note (or change any Default or Event of Default under clause (b) of the definition thereof related thereto);

(c) reduce the premium payable upon the redemption of any such Note or change the time at which any such Note may be redeemed, in each case as described above under "*—Optional Redemption*".

(d) change the coin or currency in which the principal of any Note or any premium or any Additional Amounts or the interest thereon is payable on or after the due dates thereof;

(e) impair the right to institute suit for the enforcement of any payment of any Note in accordance with the provisions of such Note and the Indenture;

(f) make any change to the amendment or waiver provisions which require the Holders' consent described in this sentence;

(g) release any Guarantee, other than in compliance with the guarantor release provisions of the Indenture or the Intercreditor Agreement (or any Additional Intercreditor Agreement), as applicable; and

(h) release any Lien on the Collateral granted for the benefit of the Holders, other than in compliance with the terms of the Indenture or the Intercreditor Agreement (or any Additional Intercreditor Agreement).

Notwithstanding the foregoing, without the consent of any Holder of the Notes, the Issuer, the Guarantors and the Trustee may modify, amend or supplement the Indenture, the Notes, the Intercreditor Agreement, any Additional Intercreditor Agreement, the Guarantees or the Security Documents, as applicable, to:

(a) evidence the succession of another Person to the Issuer or a Guarantor and the assumption by any such successor of the covenants in the Indenture, the Notes, any Guarantee, the Intercreditor Agreement, any Additional Intercreditor Agreement or the Security Documents, as applicable, in accordance with *"—Certain Covenants—Merger, Consolidation or Sale of Assets*;"

(b) add to the Issuer's covenants or those of any Guarantor or any other obligor in respect of the Notes for the benefit of the holders of the Notes or to surrender any right or power conferred upon the Issuer or any Guarantor or any other obligor in respect of the Notes, as applicable, in the Indenture, the Notes or any Guarantee;

(c) cure any ambiguity, omission, defect error or inconsistency;

(d) conform the text of the Indenture, the Notes, the Security Documents, or any Guarantee to any provision of this Description of the Notes to the extent that such provision in this "*Description of the Notes*" was intended to be a verbatim or substantially verbatim recitation of a provision of the Indenture, the Notes or any Guarantee;

(e) release any Guarantor in accordance with (and if permitted by) the terms of the Indenture or the Intercreditor Agreement (or any Additional Intercreditor Agreement);

(f) to provide for any Restricted Subsidiary to provide a Guarantee in accordance with the covenant described under *"—Certain Covenants—Limitation on Debt*" or *"—Certain Covenants—Limitation on Guarantees of Debt and Security by Restricted Subsidiaries*", to add Guarantees, to add security to or for the benefit of the Notes, or to confirm and evidence the release, termination, discharge or retaking of any Guarantee or Lien (including the Collateral and the Security Documents) or any amendment in respect thereof with respect to or securing the Notes when such release, termination, discharge or retaking or amendment is not prohibited by the Indenture, the Intercreditor Agreement, any Additional Intercreditor Agreement or the Security Documents;

(g) evidence and provide the acceptance of the appointment of a successor Trustee under the Indenture;

(h) make any change that would provide additional rights or benefits to the Trustee or the Holders or that does not adversely affect the rights or benefits to the Trustee or any of the Holders in any material respect under the Indenture, the Notes, any Guarantee, the Intercreditor

Agreement, any Additional Intercreditor Agreement or the Security Documents (as determined by the Issuer in good faith in respect of Holders); and

(i) provide for the issuance of Additional Notes in accordance with and if permitted by the terms of and limitations set forth in the Indenture.

The Trustee shall be entitled to receive and rely absolutely on an Officer's Certificate and an opinion of counsel as to the permissibility of any such amendment, supplement or waiver.

The consent of the Holders is not necessary under the Indenture to approve the particular form of any proposed amendment to the Indenture, the Notes or any Guarantee. It is sufficient if such consent approves the substance of the proposed amendment. A consent to any amendment or waiver under the Indenture by any Holder of the Notes given in connection with a tender of such Holder's Notes will not be rendered invalid by such tender.

Currency Indemnity

Sterling is the sole currency of account and payment for all sums payable under the Notes, the Guarantees and the Indenture. Any amount received or recovered in respect of the Notes or the Guarantees in a currency other than Sterling (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the winding up or dissolution of the Issuer, any Subsidiary or otherwise) by the Trustee and/or a Holder of the Notes in respect of any sum expressed to be due to such Holder from the Issuer or the Guarantors will constitute a discharge of their obligation only to the extent of the Sterling amount which the recipient is able to purchase with the amount so received or recovered in such other currency on the date of that receipt or recovery (or, if it is not possible to purchase Sterling on that date, on the first date on which it is possible to do so). If the Sterling amount that could be recovered following such a purchase is less than the Sterling amount expressed to be due to the recipient under any Note, the Issuer and the Guarantors will jointly and severally indemnify the recipient against the cost of the recipient's making a further purchase of Sterling in an amount equal to such difference. For the purposes of this paragraph, it will be sufficient for the Trustee and/or Holder to certify that it would have suffered a loss had the actual purchase of Sterling been made with the amount so received in that other currency on the date of receipt or recovery (or, if a purchase of Sterling on that date had not been possible, on the first date on which it would have been possible). These indemnities, to the extent permitted by law:

(a) constitute a separate and independent obligation from the Issuer's and the Guarantors' other obligations;

(b) give rise to a separate and independent cause of action;

(c) apply irrespective of any waiver granted by any Holder of a Note; and

(d) will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note or any other judgment or order.

Notices

For so long as any of the Notes are listed on the Irish Stock Exchange and the rules of the Irish Stock Exchange so require, the Issuer will publish notices with respect to the notes on the official website of the Irish Stock Exchange (www.ise.ie), to the extent and in the manner required by the rules of the Exchange. Such notices may instead be published in a daily newspaper with general circulation in Ireland (which is expected to be the Irish Times) or if, in the opinion of the Issuer such publication is not practicable, in an English language newspaper having general circulation in Europe. In addition, for so long as any Notes are represented by Global Notes, all notices to Holders of the Notes may be delivered by or on behalf of the Issuer to Euroclear and Clearstream.

Each such notice shall be deemed to have been given on the date of such publication or, if published more than once on different dates, on the first date on which publication is made; *provided* that, if notices are mailed, such notice shall be deemed to have been given on the later of such publication and the seventh day after being so mailed. Any notice or communication mailed to a Holder shall be mailed to such Person by first-class mail or other equivalent means and shall be sufficiently given to such Holder if so mailed within the time prescribed. Failure to mail a notice or communication

to a Holder or any defect in it shall not affect its sufficiency with respect to other Holders. If a notice or communication is mailed in the manner provided above, it is duly given, whether or not the addressee receives it. If a notice or communication is given in via Euroclear or Clearstream, it is duly given on the day the notice is given to Euroclear or Clearstream.

No Personal Liability of Directors, Officers, Employees and Stockholders

No director, officer, employee, incorporator or stockholder of the Issuer or any Guarantor, as such, will have any liability for any obligations of the Issuer or the Guarantors under the Notes, the Indenture, the Guarantees, the Intercreditor Agreement, any Additional Intercreditor Agreement, the Security Documents or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder of Notes by accepting a Note will waive and release all such liability. The waiver and release will be part of the consideration for issuance of the Notes.

The Trustee and the Security Agent

HSBC Corporate Trustee Company (UK) Limited is to be appointed as Trustee under the Indenture. The Indenture will provide that, except during the continuance of an Event of Default of which notice from the Issuer is given to the Trustee in accordance with the notice provisions of the Indenture, the Trustee will perform only such duties as are set forth specifically in the Indenture. During the existence of an Event of Default, of which notice from the Issuer is given to the Trustee in accordance with the notice provisions of the Indenture, the Trustee will exercise such of the rights and powers vested in it under the Indenture and use the same degree of care that a prudent Person would use in conducting its own affairs. The permissive rights of the Trustee to take or refrain from taking any action enumerated in the Indenture will not be construed as an obligation or duty. The Trustee will be permitted to engage in other transactions with the Issuer and its Affiliates and Subsidiaries.

The Indenture will contain provisions for the indemnification of the Trustee for any loss, liability, certain taxes and expenses incurred without gross negligence, willful misconduct or fraud on its part, arising out of or in connection with the acceptance or administration of the Indenture.

The Indenture contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured to its satisfaction.

HSBC Corporate Trustee Company (UK) Limited will initially act as Security Agent under the Intercreditor Agreement and the Security Documents on behalf of the secured creditors, including the Trustee and the Holders. The Security Agent, acting in its capacity as such, shall have such duties with respect to the Collateral as are set forth in the Intercreditor Agreement, any Additional Intercreditor Agreement and the Security Documents. Under certain circumstances, the Security Agent may have obligations under the Intercreditor Agreement, any Additional Intercreditor Agreement or the Security Documents that are in conflict with the interests of the Holders. The Security Agent will be under no obligation to exercise any rights or powers conferred under the Intercreditor Agreement or any of the Security Documents for the benefit of the secured creditors (other than the Trustee) unless such secured creditors (other than the Trustee) have provided to the Security Agent indemnity and/or security satisfactory to the Security Agent against any loss, liability or expense. Furthermore, each Holder, by accepting the Notes will agree, for the benefit of the Security Agent, that it is solely responsible for its own independent appraisal of, and investigation into, all risks arising under or in connection with the Security Documents and has not relied on or will not at any time rely on the Security Agent or the Trustee in respect of such risks.

Governing Law

The Indenture, the Notes and the Guarantees are governed by and construed in accordance with the laws of the State of New York. The Intercreditor Agreement and the Amended and Restated Senior Credit Facility will be governed by, and construed in accordance with, English law. The Security Documents entered into on the Issue Date will be governed by English law.

Certain Definitions

"Acquired Debt" means Debt of a Person:

(a) existing at the time such Person becomes a Restricted Subsidiary or is merged into or consolidated with the Issuer or any Restricted Subsidiary; or

(b) assumed in connection with the acquisition of assets from any such Person,

provided that, in each case, such Debt was not Incurred in connection with, or in contemplation of, such Person becoming a Restricted Subsidiary or such acquis ition, as the case may be.

Acquired Debt shall be deemed to be Incurred on the date the acquired Person becomes a Restricted Subsidiary (or is merged into or consolidated with the Issuer or any Restricted Subsidiary, as the case may be) or the date of the related acquisition of assets from any Person.

"Affiliate" means, with respect to any specified Person any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person.

For the purposes of this definition, "control," when used with respect to any specified Person, means the power to direct or cause the direction of the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling," "controlled" have meanings correlative to the foregoing.

"Applicable Redemption Premium" means, with respect to any Note on any redemption date, the greater of:

(a) 1.0% of the principal amount of the Note; and

(b) the excess of:

(i) the present value at such redemption date of: (x) the redemption price of such Note at 15 June 2020 (such redemption price being set forth in the table appearing below the caption "*Optional Redemption—Optional Redemption on or after 15 June 2020*" *plus* (y) all required interest payments that would otherwise be due to be paid on such Note during the period between the redemption date and 15 June 2020 (excluding accrued but unpaid interest), computed using a discount rate equal to the Gilt Rate at such redemption date *plus* 50 basis points; over

(ii) the outstanding principal amount of the Note.

For the avoidance of doubt, calculation of the Applicable Redemption Premium shall be made by or on behalf of the Issuer and shall not be a duty or obligation of the Trustee or the Paying Agent.

"Amended and Restated Senior Credit Facility Agreement" means the £100 million revolving credit facility agreement, originally dated 1 July 2014 and as amended and restated on 29 June 2015 and on or about the Issue Date, among, *inter alios*, Ocado Holdings Limited, as borrower, the other Guarantors and the Issuer, as guarantors, Barclays Bank plc as agent, the Security Agent, the lenders as described therein and other parties named therein from time to time, and the facility thereunder is referred to as the "Amended and Restated Senior Credit Facility".

"Asset Sale" means any sale, issuance, conveyance, transfer, lease (other than operating leases) or other disposition (including, without limitation, by way of merger, consolidation, amalgamation or other combination or sale and leaseback transaction) (collectively, a "transfer"), directly or indirectly, in one or a series of related transactions, of:

(a) any Capital Stock of any Subsidiary (other than directors' qualifying shares or shares required by applicable law to be held by a Person other than the Issuer or a Subsidiary);

(b) any of the Issuer's or any Restricted Subsidiary's properties or assets.

Notwithstanding the preceding, none of the following items will be deemed to be an Asset Sale:

(i) any single transaction or series of related transactions that involves assets or Capital Stock having a Fair Market Value of less than £10.0 million;

(ii) any transfer or disposition of assets (including Capital Stock of any Subsidiary) by the Issuer to any Restricted Subsidiary, or by any Restricted Subsidiary to the Issuer or any Restricted Subsidiary;

(iii) any transfer or disposition of obsolete, damaged, surplus, worn out or permanently retired equipment or facilities or other assets that are no longer useful in the conduct of the Issuer's and any Restricted Subsidiary's business;

(iv) sales, discounts or dispositions of receivables (a) on commercially reasonable terms in the ordinary course of business or (b) in any factoring or supply chain financing transaction or similar in the ordinary course of business;

(v) any transfer or disposition of assets that is governed by the provisions of the Indenture described under "*—Certain Covenants—Merger, Consolidation or Sale of Assets*" or "*—Certain Covenants—Change of Control*;"

(vi) any "fee in lieu" or other disposition of assets to any governmental authority or agency that continue in use by the Issuer or any Restricted Subsidiary, so long as the Issuer or any Restricted Subsidiary may obtain title to such assets upon reasonable notice by paying a nominal fee;

(vii) [reserved];

(viii) transfers of Capital Stock in a Restricted Subsidiary to a Person making contributions to such Restricted Subsidiary to fund its capital expenditure, to the extent the Issuer determines in good faith appropriate to reflect the level of such contribution compared to the contribution, if any, made by the Issuer or any Restricted Subsidiary;

(ix) the sale, lease, sublease, assignment or other disposition of any real or personal property or any equipment, inventory, trading stock or other assets in the ordinary course of business, including, without limitation, pursuant to agreements entered into in the ordinary course of business;

(x) (a) an issuance or transfer of Capital Stock by a Restricted Subsidiary (i) to the Issuer or to another Restricted Subsidiary or (ii) as part of, or pursuant to, an equity incentive or compensation plan approved by the Board of Directors of the Issuer or (b) the issuance of directors' qualifying shares and shares issued to individuals as required by applicable law;

(xi) any issuance, sale or disposition of Capital Stock, Debt or other securities of an Unrestricted Subsidiary;

(xii) any making of a Restricted Payment that does not violate the covenant described above under "*—Certain Covenants—Limitation on Restricted Payments*" and the making of any Permitted Investment, or, solely for purposes of paragraphs (1)(b) and (2) under "*—Certain Covenants—Limitation on Asset Sales*," asset sales, in respect of which (but only to the extent that) the proceeds are used to make such Restricted Payments or Permitted Investments);

(xiii) any transfer, termination, unwinding or other disposition of Hedging Agreements in the ordinary course of business and not for speculative purposes;

(xiv) sales of assets received by the Issuer or any Restricted Subsidiary upon the foreclosure on a Lien granted in favor of the Issuer or any Restricted Subsidiary or any other transfer of title with respect to any secured investment in default;

(xv) any disposition in connection with a Permitted Lien;

(xvi) the licensing, sub-licensing, lease, sublease, conveyance or assignment of intellectual property or other general intangibles and licenses, sub-licenses, leases, subleases, conveyances or assignments of other property, in each case, in the ordinary course of business;

(xvii) the abandonment or disposition of patents, trademarks or other intellectual property that are, in the good faith opinion of the Issuer, no longer economically practicable to maintain or useful in the conduct of the business of the Issuer and its Subsidiaries taken as a whole;

(xviii) any disposition arising from foreclosure, condemnation or any similar action with respect to any property or other assets;

(xix) the surrender or waiver of contract rights or the settlement, release or surrender of contract, tort or other claims of any kind;

(xx) any disposition of assets to a Person who is providing services related to such assets, the provision of which have been or are to be outsourced by the Issuer or any Restricted Subsidiary to such Person, in an aggregate amount not to exceed £17 million;

(xxi) any disposition with respect to property, whether tangible or intangible, built by or on behalf of, or owned or otherwise acquired by, the Issuer or any Restricted Subsidiary (a) pursuant to a customary sale and leaseback transaction, asset securitizations and other similar financings permitted by the Indenture or (b) on behalf of, or for the benefit of, a customer, or with the intention to transfer such property to a customer, in connection with a transaction or series of transactions under which the Issuer or any Restricted Subsidiary earns a fee for, or derives a benefit from, participating in such transaction or series of transactions;

(xxii) a disposition of cash or Cash Equivalents;

(xxiii) sales, transfers or other disposition of Investments in joint ventures to the extent required by, or made pursuant to, customary buy/sell arrangements between the joint venture parties set forth in joint venture arrangements and similar binding agreements; *provided* that any cash or Cash Equivalents received in such sale, transfer or disposition is applied in accordance with the "*—Certain Covenants—Limitation on Asset Sales*" covenant;

(xxiv) any sale or other disposition made pursuant to, or as a result of, a final judgment or court order related to a liquidation or unpaid claim;

(xxv) any disposition in connection with a Tax Sharing Agreement;

(xxvi) discount or disposition of receivables in connection with the compromise, settlement or collection thereof in the ordinary course of business or in bankruptcy or similar proceedings and exclusive of factoring or similar arrangements; or

(xxvii) any disposition of assets to any governmental authority or agency pursuant to state asset acquisition laws, regulations or rules.

"Board of Directors" means:

(a) with respect to any corporation, the board of directors or managers of the corporation (which, in the case of any corporation having both a supervisory board and an executive or management board, shall be the executive or management board) or any duly authorized committee thereof;

(b) with respect to any partnership, the board of directors of the general partner of the partnership or any duly authorized committee thereof;

(c) with respect to a limited liability company, the managing member or members (or analogous governing body) or any controlling committee of managing members thereof; and

(d) with respect to any other Person, the board or any duly authorized committee thereof or committee of such Person serving a similar function.

"Business Day" means a day other than a Saturday, Sunday or other day on which banking institutions in London, New York or a place of payment under the Indenture are authorized or required by law to close.

"Capital Stock" means, with respect to any Person, any and all shares, interests, partnership interests (whether general or limited), participations, rights in or other equivalents (however designated) of such Person's equity, any other interest or participation that confers the right to receive a share of the profits and losses, or distributions of assets of, such Person and any rights (other than debt securities convertible into or exchangeable for Capital Stock), warrants or options exchangeable for, or convertible into, such Capital Stock, whether now outstanding or issued after the Issue Date.

"Capitalised Lease Obligation" means, with respect to any Person, any obligation of such Person under a lease of (or other agreement conveying the right to use) any property (whether real, personal or mixed), which obligation is required to be classified and accounted for as a capital lease obligation under IFRS (as in effect on the Issue Date for purposes of determining whether a lease is a capital lease), and, for purposes of the Indenture, the amount of such obligation at any date will be the capitalised amount thereof at such date, determined in accordance with IFRS and the Stated Maturity thereof will be the date of the last payment of rent or any other amount due under such lease prior to the first date such lease may be terminated without penalty.

At any date after the Issue Date, the Issuer may, by written notice to the Trustee, make an election to establish that a Capitalised Lease Obligation is an obligation that is required to be classified and accounted for as a capital lease in accordance with IFRS as in effect from time to time. For the avoidance of doubt, prior to any such date of election obligations that are accounted for as operating lease arrangements for financial reporting purposes in accordance with IFRS as in effect on the Issue Date will not be Capitalised Lease Obligations.

"Captive Insurance Company" means Atlas Insurance PCC Limited, an insurance company incorporated in Malta in which a Restricted Subsidiary has a cell, and any other Subsidiary or joint venture of the Issuer or any Subsidiary thereof that provides any type of insurance or reinsurance to the Issuer or any of its Subsidiaries on a "captive" basis.

"Cash Equivalents" means any of the following:

(a) direct obligations (or certificates representing an interest in such obligations) issued by, or unconditionally guaranteed by, the government of a member state of the Pre-Expansion European Union, the United States of America, Switzerland or Canada (including, in each case, any agency or instrumentality thereof), as the case may be, the payment of which is backed by the full faith and credit of the relevant member state of the Pre- Expansion European Union or the United States of America, Switzerland, Norway or Canada, as the case may be, and which are not callable or redeemable at the Issuer's or any Restricted Subsidiary's option;

(b) overnight bank deposits, time deposit accounts, certificates of deposit, banker's acceptances and money market deposits (and similar instruments) with maturities of twelve months or less from the date of acquisition issued by a bank or trust company which is organised under, or authorised to operate as a bank or trust company under, the laws of a member state of the Pre -Expansion European Union or of the United States of America or any state thereof, Switzerland or Canada; *provided* that such bank or trust company has capital, surplus and undivided profits aggregating in excess of £250.0 million (or the foreign currency equivalent thereof as of the date of such investment) and whose long-term debt is rated "Baa3" or higher by Moody's or "BBB-" or higher by S&P or the equivalent rating category of another internationally recognised rating agency

(c) commercial paper having one of the two highest ratings obtainable from Moody's or S&P and, in each case, maturing within one year after the date of acquisition;

(d) repurchase obligations with a term of not more than thirty days for underlying securities of the type described in clause (a) or (b) above, entered into with any financial institution meeting the qualifications described in clause (b) above; and

(e) interests in any investment company or money market fund at least 95% of the assets of which constitute Cash Equivalents of the kinds described in clauses (a) through (d) above.

"Change of Control" means the occurrence of any of the following events:

(a) the Issuer becomes aware of any "person" or "group" of related persons (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act as in effect on the Issue Date) becoming the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act as in effect on the Issue Date), directly or indirectly, of more than 50% of the total voting power of the Voting Stock of the Issuer; *provided* that for the purposes of this clause, no Change of Control shall be deemed to occur by reason of the Issuer becoming a Subsidiary of a Successor Parent; or

(b) the sale of all or substantially all the assets of the Issuer and its Subsidiaries, taken as a whole, other than by way of merger, consolidation or other business combination transaction, in one or a series of related transactions to another Person other than a Restricted Subsidiary.

"Collateral" means the rights, property and assets securing or otherwise benefitting the Notes and/or the Guarantees as described under the caption *"—Security*" and any rights, property or assets over which a Lien has been granted to secure the obligations of the Issuer or the Guarantors under the Notes, the Guarantees or the Indenture.

"Commission" means the U.S. Securities and Exchange Commission.

"Commodities Agreement" means any agreement or arrangement designed to protect the relevant Person against fluctuations in commodities prices.

"Consolidated Debt" means, as of any date of determination, the sum of the total amount of Debt of the Issuer and the Restricted Subsidiaries that would be stated on the balance sheet of the Issuer and the Restricted Subsidiaries on a consolidated basis on such date.

"Consolidated EBITDA" means, for any period, Consolidated Net Income for such period plus the following to the extent deducted in calculating such Consolidated Net Income, without duplication:

(a) provision for taxes based on income or profits of the Issuer and the Restricted Subsidiaries for such period, and any charge for such taxes incurred and any charge for or in respect of any surrender of group relief by the Issuer or a Restricted Subsidiary pursuant to a Tax Sharing Agreement; *plus*

(b) the Consolidated Fixed Charges of the Issuer and the Restricted Subsidiaries for such period; *plus*

(c) depreciation, amortisation (including, without limitation, amortisation of intangibles and deferred financing fees), goodwill and other non-cash charges and expenses (including, without limitation, write-downs and impairment of property, plant, equipment and intangibles and other long-lived assets and the impact of purchase accounting on the Issuer and the Restricted Subsidiaries for such period) of the Issuer and the Restricted Subsidiaries (excluding any such non-cash charge or expense to the extent that it represents an accrual of or reserve for cash charges or expenses in any future period or amortisation of a prepaid cash charge or expense that was paid in a prior period) for such period; *plus*

(d) any expenses, charges or other costs related to the issuance, offer or sale of any Capital Stock, or any Permitted Investment, acquisition, disposition, recapitalisation or listing or the Incurrence of Debt, in each case, whether or not successful; *plus*

(e) the amount of any minority interest expense consisting of subsidiary income attributable to minority equity interests of third parties in any Restricted Subsidiary in such period or any prior period, except to the extent of dividends declared or paid on, or other cash payments in respect of, Capital Stock held by such parties; *plus*

(f) the proceeds of any business interruption insurance received or that become receivable during such period to the extent the associated losses arising out of the event that resulted in the payment of such business interruption insurance proceeds, or such amount becoming payable, were included in computing Consolidated Net Income; *plus*

(g) payments received or that become receivable with respect to, expenses that are covered by the indemnification provisions in any agreement entered into by the Issuer or any Restricted Subsidiary to the extent such expenses were included in computing Consolidated Net Income; *plus*

(h) any income, charge or other expense attributable to post-employment benefit, pension, fund or similar obligation other than the current service costs and any past service costs and curtailments and settlements attributable to the scheme; *minus*

(i) non-cash items increasing such Consolidated Net Income for such period, other than the reversal of a reserve for cash charges in a future period in the ordinary course of business.

"Consolidated Fixed Charges" means, for any period, without duplication and in each case determined in accordance with IFRS, the sum of:

(a) consolidated interest expense of the Issuer and the Restricted Subsidiaries to the extent deducted in calculating Consolidated Net Income for such period, *plus*, to the extent not otherwise included in consolidated interest expense:

  (i) amortisation of original issue discount (but not including deferred financing fees, debt issuance costs and premium, commissions, fees and expenses owed or paid with respect to financings);

  (ii) the net payments made or received pursuant to Hedging Agreements (including amortisation of fees and discounts);

  (iii) commissions, discounts and other fees and charges owed with respect to letters of credit and bankers' acceptance financing and similar transactions; and

  (iv) the interest portion of any deferred payment obligation and amortisation of debt issuance costs; *plus*

(b) the interest component of the Issuer's and the Restricted Subsidiaries' Capitalised Lease Obligations accrued and/or scheduled to be paid or accrued during such period other than the interest component of Capitalised Lease Obligations between or among the Issuer and any Restricted Subsidiary or between or among Restricted Subsidiaries; *plus*

(c) the Issuer's and the Restricted Subsidiaries non-cash interest expenses and interest that was capitalised during such period; *plus*

(d) the interest expense on Debt of another Person to the extent such Debt is guaranteed by the Issuer or any Restricted Subsidiary or secured by a Lien on the Issuer's or any Restricted Subsidiary's assets, but only to the extent that such interest is actually paid by the Issuer or such Restricted Subsidiary; *plus*

(e) cash and non-cash dividends due (whether or not declared) on the Issuer's Redeemable Capital Stock and any Restricted Subsidiary's Preferred Stock (to any Person other than the Issuer or any Restricted Subsidiary), in each case for such period,

  minus (i) accretion or accrual of discounted liabilities other than Debt; (ii) any expense resulting from the discounting of any Debt in connection with the application of purchase accounting in connection with any acquisition; (iii) interest with respect to Debt of any Holding Company of any Person appearing upon the balance sheet of such Person solely by reason of push-down accounting under IFRS; (iv) any Additional Amounts with respect to the Notes or other similar tax gross-up on any Debt (including, without limitation, under any Credit Facility), which is included in interest expenses under IFRS; (v) any capitalised, accrued or accreting or pay-in-kind interest or principal on Subordinated Shareholder Debt; and (vi) any interest income of the Issuer and the Restricted Subsidiaries.

"Consolidated Leverage Ratio" means, as at any date of determination, the ratio of: (1) the *pro forma* Consolidated Debt on such date, to (2) the *pro forma* Consolidated EBITDA for the period of the Issuer's most recent two consecutive fiscal halves for which internal consolidated financial statement are available prior to the date of determination; *provided* that:

(a) if the Issuer or any Restricted Subsidiary has Incurred any Debt since the beginning of such period that remains outstanding or if the transaction giving rise to the need to calculate the Consolidated Leverage Ratio is an Incurrence of Debt or both, Consolidated EBITDA and Consolidated Debt for such period shall be calculated, without duplication, after giving effect on a *pro forma* basis to such Debt as if such Debt had been Incurred on the first day of such period;

(b) if the Issuer or any Restricted Subsidiary has repaid, repurchased, redeemed, defeased or otherwise acquired, retired or discharged any Debt (each, a "Discharge") since the beginning of such period that is no longer outstanding or if the transaction giving rise to the need to calculate the Consolidated Leverage Ratio is a Discharge of Debt or both, Consolidated EBITDA and Consolidated Debt for such period shall be calculated, without duplication, after giving effect on a *pro forma* basis to such Discharge as if such Discharge had occurred on the first day of such period;

(c) if, since the beginning of such period, the Issuer or any Restricted Subsidiary shall have made any Asset Sale, Consolidated EBITDA for such period shall be reduced by an amount equal to the Consolidated EBITDA (if positive) directly attributable to the assets which are the subject of such Asset Sale for such period, or increased by an amount equal to the Consolidated EBITDA (if negative) directly attributable thereto, for such period and the Consolidated Debt for such period shall be reduced by an amount equal to the Consolidated Debt directly attributable to any Debt of the Issuer or of any Restricted Subsidiary repaid, repurchased, defeased or otherwise discharged with respect to the Issuer and the continuing Restricted Subsidiaries in connection with such Asset Sale for such period (or, if the Capital Stock of any Restricted Subsidiary is sold, the Consolidated Debt for such period directly attributable to the Debt of such Restricted Subsidiary to the extent the Issuer and the continuing Restricted Subsidiaries are no longer liable for such Debt after such sale);

(d) if, since the beginning of such period, the Issuer or any Restricted Subsidiary (by merger, consolidation, amalgamation or other combination or otherwise) shall have made an Investment in any Restricted Subsidiary (or any Person which becomes a Restricted Subsidiary) or an acquisition of assets, including any acquisition of an asset occurring in connection with a transaction causing a calculation to be made hereunder, which constitutes all or substantially all of an operating unit of a business, Consolidated EBITDA and Consolidated Debt for such period shall be calculated after giving *pro forma* effect thereto as if such Investment or acquisition occurred on the first day of such period; and

(e) if, since the beginning of such period, any Person (that subsequently became a Restricted Subsidiary or was merged with or into the Issuer or any Restricted Subsidiary since the beginning of such period) shall have made any Asset Sale or any Investment or acquisition of assets that would have required an adjustment pursuant to clause (c) or (d) if made by the Issuer or a Restricted Subsidiary during such period, Consolidated EBITDA and Consolidated Debt for such period shall be calculated after giving *pro forma* effect thereto as if such Asset Sale or Investment or acquisition occurred on the first day of such period,

provided, however, the *pro forma* calculation of the Consolidated Leverage Ratio shall not give effect to (i) any Debt Incurred on the date of determination pursuant to paragraph (2) of "*—Certain Covenants—Limitation on Debt*" (other than with respect to clause (t) of such covenant) or (ii) the discharge on the date of determination of any Debt to the extent that such discharge results from the proceeds incurred pursuant to paragraph (2) of "*—Certain Covenants—Limitation on Debt*."

If any Debt bears a floating rate of interest and is being given *pro forma* effect, the interest expense on such Debt shall be calculated as if the rate in effect on the date of determination had been the applicable rate for the entire period (taking into account any Interest Rate Agreement applicable to such Debt for a period equal to the remaining term of such Interest Rate Agreement).

For purposes of this definition, without double counting, (1) *pro forma* effect may be given to any transaction referred to in clauses (a) through (e) above, or the amount of income or earnings relating thereto, and the *pro forma* calculations in respect thereof (including, without limitation, in respect of anticipated cost savings or synergies relating to any such transaction (calculated on a *pro forma* basis as though such cost savings or synergies had been realised on the first day of the relevant period) net of the amounts of any actual benefits realised during the relevant period from such actions) shall be as determined in good faith by the Chief Financial Officer of the Issuer or an authorised responsible financial or accounting Officer of the Issuer and (2) when determining *pro forma* Consolidated EBITDA of the Issuer and the Restricted Subsidiaries, the Issuer may adjust Consolidated EBITDA to add an amount equal to the cost savings projected to be realised as the result of actions taken or to be taken on or prior to the date that is 18 months after the consummation of any operational change (calculated on a *pro forma* basis as though such cost savings had been realised on the first day of the relevant period), net of the amount of any actual benefits realised during the relevant period from such actions, as determined in good faith by the Chief Financial Officer of the Issuer or an authorised responsible financial or accounting Officer of the Issuer.

"Consolidated Net Debt" means, as of any date of determination, the sum of the total amount of Debt of the Issuer and the Restricted Subsidiaries, *less* cash and Cash Equivalents, in each case that would be stated on the balance sheet of the Issuer and the Restricted Subsidiaries on a consolidated basis on such date.

"Consolidated Net Income" means, for any period, the Issuer's and the Restricted Subsidiaries' consolidated net income (or loss) for such period as determined in accordance with IFRS, adjusted by excluding (to the extent included in such consolidated net income or loss), without duplication:

(a) the portion of net income (and the loss unless and to the extent funded in cash by the Issuer or a Restricted Subsidiary) of any Person (other than the Issuer or a Restricted Subsidiary), including Unrestricted Subsidiaries, in which the Issuer or any Restricted Subsidiary has an equity ownership interest, except that the Issuer's or a Restricted Subsidiary's equity in the net income of such Person for such period shall be included in such Consolidated Net Income to the extent of the aggregate amount of dividends or other distributions actually paid to the Issuer or any Restricted Subsidiary in cash dividends or other distributions during such period;

(b) solely for the purpose of determining the amount available for Restricted Payments under paragraph (2)(c)(i) of the covenant described under "*—Certain Covenants—Limitation on Restricted Payments*", the net income (but not the loss) of any Restricted Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such Restricted Subsidiary is not at the date of determination permitted, directly or indirectly, by operation of the terms of its articles of incorporation, charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such Restricted Subsidiary or its shareholders (other than (i) restrictions that have been waived or otherwise released, (ii) restrictions pursuant to the Indenture, (iii) contractual restrictions in effect on the Issue Date with respect to a Restricted Subsidiary, and other restrictions with respect to such Restricted Subsidiary that, taken as a whole, are not materially less favourable to the Holders than such restrictions in effect on the Issue Date, and (iv) restrictions specified in the covenant described under "*—Certain Covenants—Limitation on Dividends and Other Payment Restrictions Affecting Restricted Subsidiaries*") except that the Issuer's equity in the net income of any such Restricted Subsidiary for such period will be included in such Consolidated Net Income up to the aggregate amount of cash or Cash Equivalents actually distributed or that could have been distributed by such Restricted Subsidiary during such period to the Issuer or another Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend to another Restricted Subsidiary, to the limitation contained in this clause);

(c) net after-tax gains attributable to the termination of any employee pension benefit plan;

(d) any restoration to net income of any contingency reserve, except to the extent provision for such reserve was made out of income accrued at any time following the Issue Date;

(e) any net gain or loss arising from the acquisition of any securities or extinguishment, under IFRS, of any Debt of such Person;

(f) the net income attributable to discontinued operations (including, without limitation, operations disposed of during such period whether or not such operations were classified as discontinued);

(g) the cumulative effect of a change in accounting principles;

(h) the net gain (or loss) realized upon the sale or other disposition of any asset or disposed operations of the Issuer or any Restricted Subsidiary (including pursuant to a sale/leaseback transaction) which is not sold or otherwise disposed of in the ordinary course of business (as determined in good faith by an Officer or the Board of Directors of the Issuer);

(i) any special, extraordinary, one-off, exceptional, unusual or non-recurring gain, loss, expense or charge (including one-off investment in plant, property and equipment, for example vehicles or material handling equipment), or any charges in respect of any restructuring, redundancy, relocation, refinancing, integration or severance or other post-employment arrangements, signing, retention or completion bonuses, transaction costs (including costs related to the refinancing or any investments), acquisition costs, business optimization, system establishment, software or information technology implementation or development costs, costs related to governmental investigations and curtailments or modifications to pension or post-retirement benefits schemes, litigation or any asset impairment charges or the financial impacts of natural disasters (including fire, flood and storm and related events);

(j) any non-cash compensation charge or expense arising from any grant of stock, stock options or other equity based awards and any non-cash deemed finance charges in respect of any pension liabilities or other provisions;

(k) any unrealized gains or losses in respect of Hedging Agreements or other derivative instruments or forward contracts or any ineffectiveness recognized in earnings related to a qualifying hedge transaction or the fair value or changes therein recognized in earnings for derivatives that do not qualify as hedge transactions, in each case, in respect of Hedging Agreements;

(l) any unrealized foreign currency transaction gains or losses in respect of Debt or other obligations of the Issuer or any Restricted Subsidiary denominated in a currency other than the functional currency of such Person and any unrealized foreign exchange gains or losses resulting from re -measuring assets and liabilities denominated in foreign currencies;

(m) any unrealized foreign currency translation or transaction gains or losses in respect of Debt or other obligations of the Issuer or any Restricted Subsidiary owing to the Issuer or any Restricted Subsidiary;

(n) any goodwill or other intangible asset impairment charge or write-off or write-down; and

(o) the impact of capitalised, accrued or accreting or pay-in-kind interest or principal on Subordinated Shareholder Debt.

"Consolidated Net Leverage Ratio" means, as at any date of determination, the ratio of: (1) the *pro forma* Consolidated Net Debt on such date, to (2) the *pro forma* Consolidated EBITDA for the period of the Issuer's most recent two consecutive fiscal halves for which internal consolidated financial statement are available prior to the date of determination; *provided* that:

(a) if the Issuer or any Restricted Subsidiary has Incurred any Debt since the beginning of such period that remains outstanding or if the transaction giving rise to the need to calculate the Consolidated Net Leverage Ratio is an Incurrence of Debt or both, Consolidated EBITDA and Consolidated Net Debt for such period shall be calculated, without duplication, after giving effect on a *pro forma* basis to such Debt as if such Debt had been Incurred on the first day of such period;

(b) if the Issuer or any Restricted Subsidiary has Discharged (as defined under the definition of "Consolidated Leverage Ratio") any Debt since the beginning of such period that is no longer outstanding or if the transaction giving rise to the need to calculate the Consolidated Net Leverage Ratio is a Discharge of Debt or both, Consolidated EBITDA and Consolidated Net Debt for such period shall be calculated, without duplication, after giving effect on a *pro forma* basis to such Discharge as if such Discharge had occurred on the first day of such period;

(c) if, since the beginning of such period, the Issuer or any Restricted Subsidiary shall have made any Asset Sale, Consolidated EBITDA for such period shall be reduced by an amount equal to the Consolidated EBITDA (if positive) directly attributable to the assets which are the subject of such Asset Sale for such period, or increased by an amount equal to the Consolidated EBITDA (if negative) directly attributable thereto, for such period and the Consolidated Net Debt for such period shall be reduced by an amount equal to the Consolidated Net Debt directly attributable to any Debt of the Issuer or of any Restricted Subsidiary repaid, repurchased, defeased or otherwise discharged with respect to the Issuer and the continuing Restricted Subsidiaries in connection with such Asset Sale for such period (or, if the Capital Stock of any Restricted Subsidiary is sold, the Consolidated Net Debt for such period directly attributable to the Debt of such Restricted Subsidiary to the extent the Issuer and the continuing Restricted Subsidiaries are no longer liable for such Debt after such sale);

(d) if, since the beginning of such period, the Issuer or any Restricted Subsidiary (by merger, consolidation, amalgamation or other combination or otherwise) shall have made an Investment in any Restricted Subsidiary (or any Person which becomes a Restricted Subsidiary) or an acquisition of assets, including any acquisition of an asset occurring in connection with a transaction causing a calculation to be made hereunder, which constitutes all or substantially all of an operating unit of a business, Consolidated EBITDA and Consolidated Net Debt for such period shall be calculated after giving *pro forma* effect thereto as if such Investment or acquisition occurred on the first day of such period; and

(e) if, since the beginning of such period, any Person (that subsequently became a Restricted Subsidiary or was merged with or into the Issuer or any Restricted Subsidiary since the

beginning of such period) shall have made any Asset Sale or any Investment or acquisition of assets that would have required an adjustment pursuant to clause (c) or (d) if made by the Issuer or a Restricted Subsidiary during such period, Consolidated EBITDA and Consolidated Net Debt for such period shall be calculated after giving *pro forma* effect thereto as if such Asset Sale or Investment or acquisition occurred on the first day of such period,

provided, however, the *pro forma* calculation of the Consolidated Net Leverage Ratio shall not give effect to (i) any Debt Incurred on the date of determination pursuant to paragraph (2) of "*—Certain Covenants—Limitation on Debt*" (other than with respect to clause (t) of such covenant) or (ii) the discharge on the date of determination of any Debt to the extent that such discharge results from the proceeds incurred pursuant to paragraph (2) of "*—Certain Covenants—Limitation on Debt* ."

If any Debt bears a floating rate of interest and is being given *pro forma* effect, the interest expense on such Debt shall be calculated as if the rate in effect on the date of determination had been the applicable rate for the entire period (taking into account any Interest Rate Agreement applicable to such Debt for a period equal to the remaining term of such Interest Rate Agreement).

For purposes of this definition, without double counting, (1) *pro forma* effect may be given to any transaction referred to in clauses (a) through (e) above, or the amount of income or earnings relating thereto, and the *pro forma* calculations in respect thereof (including, without limitation, in respect of anticipated cost savings or synergies relating to any such transaction (calculated on a *pro forma* basis as though such cost savings or synergies had been realised on the first day of the relevant period) net of the amounts of any actual benefits realised during the relevant period from such actions) shall be as determined in good faith by the Chief Financial Officer of the Issuer or an authorised responsible financial or accounting Officer of the Issuer and (2) when determining *pro forma* Consolidated EBITDA of the Issuer and the Restricted Subsidiaries, the Issuer may adjust Consolidated EBITDA to add an amount equal to the cost savings projected to be realised as the result of actions taken or to be taken on or prior to the date that is 18 months after the consummation of any operational change (calculated on a *pro forma* basis as though such cost savings had been realised on the first day of the relevant period), net of the amount of any actual benefits realised during the relevant period from such actions, as determined in good faith by the Chief Financial Officer of the Issuer or an authorised responsible financial or accounting Officer of the Issuer.

"Consolidated Senior Secured Leverage Ratio" means, as at any date of determination, the ratio of: (1) the *pro forma* Secured Debt on such date, to (2) the *pro forma* Consolidated EBITDA for the period of the Issuer's most recent two consecutive fiscal halves for which internal consolidated financial statement are available prior to the date of determination; *provided* that:

(a) if the Issuer or any Restricted Subsidiary has Incurred any Debt since the beginning of such period that remains outstanding or if the transaction giving rise to the need to calculate the Consolidated Senior Secured Leverage Ratio is an Incurrence of Debt or both, Consolidated EBITDA and Secured Debt for such period shall be calculated, without duplication, after giving effect on a *pro forma* basis to such Debt as if such Debt had been Incurred on the first day of such period;

(b) if the Issuer or any Restricted Subsidiary has Discharged (as defined under the definition of "Consolidated Leverage Ratio") any Debt since the beginning of such period that is no longer outstanding or if the transaction giving rise to the need to calculate the Consolidated Senior Secured Leverage Ratio is a Discharge of Debt or both, Consolidated EBITDA and Secured Debt for such period shall be calculated, without duplication, after giving effect on a *pro forma* basis to such Discharge as if such Discharge had occurred on the first day of such period;

(c) if, since the beginning of such period, the Issuer or any Restricted Subsidiary shall have made any Asset Sale, Consolidated EBITDA for such period shall be reduced by an amount equal to the Consolidated EBITDA (if positive) directly attributable to the assets which are the subject of such Asset Sale for such period, or increased by an amount equal to the Consolidated EBITDA (if negative) directly attributable thereto, for such period and the Secured Debt for such period shall be reduced by an amount equal to the Secured Debt directly attributable to any Debt of the Issuer or of any Restricted Subsidiary repaid, repurchased, defeased or otherwise discharged with respect to the Issuer and the continuing Restricted Subsidiaries in connection with such Asset Sale for such period (or, if the Capital

Stock of any Restricted Subsidiary is sold, the Secured Debt for such period directly attributable to the Debt of such Restricted Subsidiary to the extent the Issuer and the continuing Restricted Subsidiaries are no longer liable for such Debt after such sale);

(d) if, since the beginning of such period, the Issuer or any Restricted Subsidiary (by merger, consolidation, amalgamation or other combination or otherwise) shall have made an Investment in any Restricted Subsidiary (or any Person which becomes a Restricted Subsidiary) or an acquisition of assets, including any acquisition of an asset occurring in connection with a transaction causing a calculation to be made hereunder, which constitutes all or substantially all of an operating unit of a business, Consolidated EBITDA and Secured Debt for such period shall be calculated after giving *pro forma* effect thereto as if such Investment or acquisition occurred on the first day of such period; and

(e) if, since the beginning of such period, any Person (that subsequently became a Restricted Subsidiary or was merged with or into the Issuer or any Restricted Subsidiary since the beginning of such period) shall have made any Asset Sale or any Investment or acquisition of assets that would have required an adjustment pursuant to clause (c) or (d) if made by the Issuer or a Restricted Subsidiary during such period, Consolidated EBITDA and Secured Debt for such period shall be calculated after giving *pro forma* effect thereto as if such Asset Sale or Investment or acquisition occurred on the first day of such period,

provided, however, the *pro forma* calculation of the Consolidated Senior Secured Leverage Ratio shall not give effect to (i) any Debt Incurred on the date of determination pursuant to paragraph (2) of "*—Certain Covenants—Limitation on Debt*" (other than with respect to clause (t) of such covenant) or (ii) the discharge on the date of determination of any Debt to the extent that such discharge results from the proceeds incurred pursuant to paragraph (2) of "*—Certain Covenants —Limitation on Debt* ."

If any Debt bears a floating rate of interest and is being given *pro forma* effect, the interest expense on such Debt shall be calculated as if the rate in effect on the date of determination had been the applicable rate for the entire period (taking into account any Interest Rate Agreement applicable to such Debt for a period equal to the remaining term of such Interest Rate Agreement).

For purposes of this definition, without double counting, (1) *pro forma* effect may be given to any transaction referred to in clauses (a) through (e) above, or the amount of income or earnings relating thereto, and the *pro forma* calculations in respect thereof (including, without limitation, in respect of anticipated cost savings or synergies relating to any such transaction (calculated on a *pro forma* basis as though such cost savings or synergies had been realised on the first day of the relevant period) net of the amounts of any actual benefits realised during the relevant period from such actions) shall be as determined in good faith by the Chief Financial Officer of the Issuer or an authorised responsible financial or accounting Officer of the Issuer and (2) when determining *pro forma* Consolidated EBITDA of the Issuer and the Restricted Subsidiaries, the Issuer may adjust Consolidated EBITDA to add an amount equal to the cost savings projected to be realised as the result of actions taken or to be taken on or prior to the date that is 18 months after the consummation of any operational change (calculated on a *pro forma* basis as though such cost savings had been realised on the first day of the relevant period), net of the amount of any actual benefits realised during the relevant period from such actions, as determined in good faith by the Chief Financial Officer of the Issuer or an authorised responsible financial or accounting Officer of the Issuer.

"Consolidated Total Assets" means, as of any date of determination, the total assets excluding any increase or decrease in asset carrying value of Hedging Obligations, in each case shown on the consolidated balance sheet of the Issuer and the Restricted Subsidiaries as of the most recently ended fiscal half of the Issuer for which such a balance sheet is available, taken as a whole, in accordance with IFRS (and, in the case of any determination relating to any Incurrence of Debt or Liens or any Investment, on a *pro forma* basis including any property or assets being acquired in connection therewith).

"Contribution Amounts" means the aggregate amount of capital contributions applied by the Issuer to permit the Incurrence of Contribution Debt pursuant to clause (2)(y) of the covenant described under the caption "*—Certain Covenants—Limitation on Debt*".

"Contribution Debt" means Debt of the Issuer or any Restricted Subsidiary in an aggregate principal amount not greater than 100% of the aggregate amount of net cash contributions (other than the proceeds from the issuance of Redeemable Capital Stock or Preferred Stock or contributions by the Issuer or any Restricted Subsidiary) made to the equity capital of the Issuer or such Restricted Subsidiary (in each case, other than by a Subsidiary of the Issuer) (whether through the issuance or sale of Capital Stock (other than Redeemable Capital Stock or Preferred Stock) or Subordinated Shareholder Debt or otherwise contributed to equity (other than through Redeemable Capital Stock or Preferred Stock)) in each case after the Issue Date; *provided* that such Contribution Debt:

(a) is Incurred within 180 days after the making of the related cash capital contribution; and

(b) is so designated as "Contribution Debt" pursuant to an Officer's Certificate no later than the date of Incurrence thereof.

"Credit Facility" or "Credit Facilities" means, one or more debt facilities or indentures, as the case may be, (including the Amended and Restated Senior Credit Facility) or commercial paper facilities, arrangements, instruments, indentures, note purchase agreements or commercial paper facilities and overdraft facilities, in each case, with banks, insurance companies or other institutional lenders providing for revolving credit loans, term loans, bankers acceptances, receivables or inventory financing (including through the sale of receivables to such lenders or to special purpose entities formed to borrow from such lenders against such receivables), notes, letters of credit or other Debt, in each case, as amended, supplemented, restated, modified, renewed, refunded, replaced, refinanced, repaid, increased or extended in whole or in part from time to time (each, for purposes of paragraph (2)(a) of "*—Certain Covenants—Limitation on Debt*," a "refinancing") (and whether in whole or in part and whether or not with the original administrative agent and lenders or another administrative agent or agents or other banks, institutions or investors and whether provided under the Amended and Restated Senior Credit Facility or one or more other credit or other agreements, indentures, note purchase agreements, financing agreements or otherwise) and in each case including all agreements, instruments and documents executed and delivered pursuant to or in connection with the foregoing (including any notes and letters of credit issued pursuant thereto and any Guarantee and collateral agreement, patent and trademark security agreement, mortgages or letter of credit applications and other guarantees, pledges, charges, agreements, security agreements and collateral documents). Without limiting the generality of the foregoing, the term "Credit Facility" shall include any agreement or instrument (a) changing the maturity of any Debt Incurred thereunder or contemplated thereby, (b) adding Subsidiaries of the Issuer as additional borrowers or guarantors thereunder, (c) increasing the amount of Debt Incurred thereunder or available to be borrowed thereunder or (d) otherwise altering the terms and conditions thereof.

"Currency Agreements" means, in respect of a Person, any spot or forward foreign exchange agreements and currency swap, currency option or other similar financial agreements or arrangements designed to protect such Person against or manage exposure to fluctuations in foreign currency exchange rates.

"Debt" means, with respect to any Person on any date of determination, without duplication:

(a) the principal of indebtedness of such Person for borrowed money (including overdrafts) or for the deferred purchase price of property or services, excluding any trade payables and other accrued current liabilities Incurred in the ordinary course of business;

(b) the principal of obligations of such Person evidenced by bonds, notes, debentures or other similar instruments;

(c) all reimbursement obligations of such Person in connection with any letters of credit, bankers' acceptances or other similar facilities (the amount of such obligation being equal at any time to the aggregate amount of drawings thereunder that have not then been reimbursed);

(d) all debt of such Person created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person (even if the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property), which is due more than one year after its incurrence but excluding trade payables arising in the ordinary course of business;

(e) all Capitalised Lease Obligations of such Person;

(f) all obligations of such Person under or in respect of Hedging Agreements (the amount of any such obligation to be equal at any time to the termination value of such agreement or arrangement giving rise to such obligation that would be payable by such Person at such time);

(g) all Debt referred to in (but not excluded from) the preceding clauses (a) through (f) of other Persons and all dividends of other Persons, the payment of which is secured by (or for which the holder of such Debt has an existing right, contingent or otherwise, to be secured by) any Lien upon or with respect to property (including, without limitation, accounts and contract rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such Debt (the amount of such obligation being deemed to be the lesser of the Fair Market Value of such property or asset and the amount of the obligation so secured);

(h) all guarantees by such Person of Debt referred to in this definition of any other Person;

(i) all Redeemable Capital Stock of such Person valued at the greater of its voluntary maximum fixed repurchase price and involuntary maximum fixed repurchase price; and

(j) Preferred Stock of any Restricted Subsidiary,

in each case to the extent it appears as a liability on the balance sheet in accordance with IFRS; *provided* that the term "Debt" shall not include: (i) non-interest bearing installment obligations and accrued liabilities Incurred in the ordinary course of business that are (a) not more than 180 days past due or (b) more than 180 days past due but with the consent of the payee or as the result of a *bona fide* ongoing negotiation over such liabilities; (ii) anything accounted for as an operating lease in accordance with IFRS as at the Issue Date; (iii) any pension obligations of the Issuer or a Restricted Subsidiary; (iv) Debt incurred by the Issuer or one of the Restricted Subsidiaries in connection with a transaction where (a) such Debt is borrowed from a bank or trust company organised under, or authorised to operate as a bank or trust company under, the laws of a member state of the Pre-Expansion European Union or of the United States of America or any state thereof, Switzerland, Norway or Canada or any commercial banking institution that is a member of the U.S. Federal Reserve System, in each case having a combined capital and surplus and undivided profits of not less than €250.0 million, whose long-term, unsecured, unsubordinated and unguaranteed debt has a rating immediately prior to the time such transaction is entered into, of "BBB-" or higher by S&P, "Baa3" or higher by Moody's or the equivalent rating category of another internationally recognised rating agency and (b) a substantially concurrent Investment is made by the Issuer or a Restricted Subsidiary in the form of cash deposited with the lender of such Debt, or a Subsidiary or affiliate thereof, in amount equal to such Debt; (v) obligations under a Tax Sharing Agreement, up to an amount not to exceed, with respect to such obligations, the amount of such Taxes that the Issuer and the Restricted Subsidiaries would have been required to pay on a separate company basis, or on a consolidated basis if the Issuer and the Restricted Subsidiaries had paid tax on a consolidated, combined, group, affiliated or unitary basis on behalf of an affiliated group consisting only of the Issuer and the Restricted Subsidiaries; (vi) any guarantee, indemnity, bond, standby letter of credit or similar instrument in respect of commercial obligations of the Issuer or any Restricted Subsidiary in the ordinary course of business to the extent such guarantees, indemnities, bonds or letters of credit are not drawn upon or, if and to the extent drawn upon are honoured in accordance with their terms and if to be reimbursed, are reimbursed no later than the fifth Business Day following receipt by such Person of a demand for reimbursement following payment on the guarantee, indemnity, bond or letter of credit and (vii) Subordinated Shareholder Debt.

For purposes of this definition, the "maximum fixed repurchase price" of any Redeemable Capital Stock that does not have a fixed redemption, repayment or repurchase price will be calculated in accordance with the terms of such Redeemable Capital Stock as if such Redeemable Capital Stock were purchased on any date on which Debt will be required to be determined pursuant to the Indenture, and if such price is based upon, or measured by, the Fair Market Value of such Redeemable Capital Stock, such Fair Market Value will be determined in good faith by the Board of Directors of the issuer of such Redeemable Capital Stock; *provided*, that if such Redeemable Capital Stock is not then permitted to be redeemed, repaid or repurchased, the redemption, repayment or repurchase price shall be the book value of such Redeemable Capital Stock as reflected in the most recent financial statements of such Person.

"Default" means any event that is, or after the giving of notice or passage of time or both would be, an Event of Default.

"Designated Non-cash Consideration" means the Fair Market Value of non-cash consideration received by the Issuer or one of the Restricted Subsidiaries in connection with an Asset Sale that is so designated as "Designated Non-cash Consideration" pursuant to an Officer's Certificate, setting forth the basis of such valuation, *less* the amount of cash or Cash Equivalents received in connection with a subsequent sale of such Designated Non-cash Consideration.

"Disinterested Member" means, with respect to any transaction or series of related transactions, a member of the Issuer's Board of Directors who does not have any material direct or indirect financial interest in or with respect to such transaction or series of related transactions or is not an Affiliate, or an officer, director, member of a supervisory, executive or management board or employee of any Person (other than the Issuer or a Restricted Subsidiary) who has any direct or indirect financial interest in or with respect to such transaction or series of related transactions, *provided* that the ownership of Capital Stock in a Person that has a direct or indirect financial interest in or with respect to such transactions or series of related transactions will not in itself disqualify a member of the Issuer's Board of Directors from being a Disinterested Member with respect to any transaction or series of related transactions.

"Equity Offering" means an issuance or sale of Capital Stock (which is Qualified Capital Stock) of the Issuer, or any Holding Company of the Issuer, other than on Form S-8 (or any successor form) under the Securities Act or any similar offering in other jurisdictions; *provided* that the net proceeds of such issuance or sale are contributed to the equity capital of, or as Subordinated Shareholder Debt to, the Issuer or any of the Restricted Subsidiaries.

"Exchange Act" means the U.S. Securities Exchange Act of 1934, as amended, or any successor statute, and the rules and regulations promulgated by the Commission thereunder.

"Existing Vehicle Leases" means those vehicle lease agreements between the Issuer or any Restricted Subsidiary and the third party lessor of such vehicles which exist as of the Issue Date in an outstanding principal amount not in excess of £41.8 million.

"Fair Market Value" means, with respect to any asset or property, the sale value that would be obtained in an arm's-length free market transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Issuer's Board of Directors, Chief Executive Officer or Chief Financial Officer, in each case whose determination will be conclusive.

"Fitch" means Fitch Ratings Inc., or any of its successors or assigns that is a Nationally Recognized Statistical Rating Organization.

"Fixed Charge Coverage Ratio" means, as of any date of determination, the ratio of (1) *pro forma* Consolidated EBITDA to (2) *pro forma* Consolidated Fixed Charges for the Issuer's most recent two consecutive fiscal halves for which internal consolidated financial statement are available prior to the date of determination; *provided* that:

(a) if the Issuer or any Restricted Subsidiary has Incurred any Debt since the beginning of such period that remains outstanding or if the transaction giving rise to the need to calculate the Fixed Charge Coverage Ratio is an Incurrence of Debt or both, Consolidated EBITDA and Consolidated Fixed Charges for such period shall be calculated, without duplication, after giving effect on a *pro forma* basis to such Debt as if such Debt had been Incurred on the first day of such period;

(b) if the Issuer or any Restricted Subsidiary has Discharged (as defined under the definition of "Consolidated Leverage Ratio") any Debt since the beginning of such period that is no longer outstanding or if the transaction giving rise to the need to calculate the Fixed Charge Coverage Ratio is a Discharge of Debt or both (in each case other than Debt Incurred under any revolving credit facility (including the Amended and Restated Senior Credit Facility) unless such Debt has been permanently repaid), Consolidated EBITDA and Consolidated Fixed Charges for such period shall be calculated, without duplication, after giving effect on a *pro forma* basis to such Discharge as if such Discharge had occurred on the first day of such period;

(c) if, since the beginning of such period, the Issuer or any Restricted Subsidiary shall have made any Asset Sale, Consolidated EBITDA for such period shall be reduced by an amount equal to the Consolidated EBITDA (if positive) directly attributable to the assets which are the subject of such Asset Sale for such period, or increased by an amount equal to the Consolidated EBITDA (if negative) directly attributable thereto, for such period and the Consolidated Fixed Charges for such period shall be reduced by an amount equal to the Consolidated Fixed Charges directly attributable to any Debt of the Issuer or of any Restricted Subsidiary repaid, repurchased, defeased or otherwise discharged with respect to the Issuer and the continuing Restricted Subsidiaries in connection with such Asset Sale for such period (or, if the Capital Stock of any Restricted Subsidiary is sold, the Consolidated Fixed Charges for such period directly attributable to the Debt of such Restricted Subsidiary to the extent the Issuer and the continuing Restricted Subsidiaries are no longer liable for such Debt after such sale);

(d) if, since the beginning of such period, the Issuer or any Restricted Subsidiary (by merger, consolidation, amalgamation or other combination or otherwise) shall have made an Investment in any Restricted Subsidiary (or any Person which becomes a Restricted Subsidiary) or an acquisition of assets, including any acquisition of an asset occurring in connection with a transaction causing a calculation to be made hereunder, which constitutes all or substantially all of an operating unit of a business, Consolidated EBITDA and Consolidated Fixed Charges for such period shall be calculated after giving *pro forma* effect thereto as if such Investment or acquisition occurred on the first day of such period; and

(e) if, since the beginning of such period, any Person (that subsequently became a Restricted Subsidiary or was merged with or into the Issuer or any Restricted Subsidiary since the beginning of such period) shall have made any Asset Sale or any Investment or acquisition of assets that would have required an adjustment pursuant to clause (c) or (d) if made by the Issuer or a Restricted Subsidiary during such period, Consolidated EBITDA and Consolidated Fixed Charges for such period shall be calculated after giving *pro forma* effect thereto as if such Asset Sale or Investment or acquisition occurred on the first day of such period,

provided, however, the *pro forma* calculation of the Fixed Charge Coverage Ratio shall not give effect to (i) any Debt Incurred on the date of determination pursuant to paragraph (2) of "*—Certain Covenants—Limitation on Debt*" (other than with respect to clause (t) of such covenant) or (ii) the discharge on the date of determination of any Debt to the extent that such discharge results from the proceeds incurred pursuant to paragraph (2) of "*—Certain Covenants—Limitation on Debt*."

If any Debt bears a floating rate of interest and is being given *pro forma* effect, the interest expense on such Debt shall be calculated as if the rate in effect on the date of determination had been the applicable rate for the entire period (taking into account any Interest Rate Agreement applicable to such Debt for a period equal to the remaining term of such Interest Rate Agreement).

For purposes of this definition, without double counting, (1) *pro forma* effect may be given to any transaction referred to in clauses (a) through (e) above, or the amount of income or earnings relating thereto, and the *pro forma* calculations in respect thereof (including, without limitation, in respect of anticipated cost savings or synergies relating to any such transaction (calculated on a *pro forma* basis as though such cost savings or synergies had been realised on the first day of the relevant period) net of the amounts of any actual benefits realised during the relevant period from such actions) shall be as determined in good faith by the Chief Financial Officer of the Issuer or an authorised responsible financial or accounting Officer of the Issuer and (2) when determining *pro forma* Consolidated EBITDA of the Issuer and the Restricted Subsidiaries, the Issuer may adjust Consolidated EBITDA to add an amount equal to the cost savings projected to be realised as the result of actions taken or to be taken on or prior to the date that is 18 months after the consummation of any operational change (calculated on a *pro forma* basis as though such cost savings had been realised on the first day of the relevant period), net of the amount of any actual benefits realised during the relevant period from such actions, as determined in good faith by the Chief Financial Officer of the Issuer or an authorised responsible financial or accounting Officer of the Issuer.

"Gilt Rate" means, with respect to any redemption date, the yield to maturity as of such redemption date of U.K. Government Obligations with a fixed maturity (as compiled by the Office for National

Statistics and published in the most recent Financial Statistics that have become publicly available at least two Business Days in London prior to such redemption date (or, if such Financial Statistics are no longer published, any publicly available source of similar market data)) most nearly equal to the period from such redemption date to 15 June 2020; *provided*, however, that if the period from such redemption date to 15 June 2020 is less than one year, the weekly average yield on actually traded U.K. Government Obligations denominated in sterling adjusted to a fixed maturity of one year shall be used.

"Group" means the Issuer and its Subsidiaries.

"guarantee" means, as applied to any obligation:

(a) a guarantee (other than by endorsement of negotiable instruments for collection or deposit in the ordinary course of business), direct or indirect, in any manner, of any part or all of such obligation; and

(b) an agreement, direct or indirect, contingent or otherwise, the practical effect of which is to assure in any way the payment or performance (or payment of damages in the event of non-performance) of all or any part of such obligation, including, without limiting the foregoing, by the pledge of assets and the payment of amounts drawn down under letters of credit.

When used as a verb, "guarantee" shall have a corresponding meaning.

"Guarantee" means any guarantee of the Issuer's obligations under the Indenture and the Notes by any Restricted Subsidiary or any other Person in accordance with the provisions of the Indenture. When used as a verb, "Guarantee" shall have a corresponding meaning.

"Guarantors" means (a) as of the Issue Date, the Initial Guarantors and (b) thereafter, any other Person that executes a Guarantee in accordance with the provisions of the Indenture and the Intercreditor Agreement, and their respective successors and assigns, in each case, until the Guarantee of such Person has been released in accordance with the provisions of the Indenture.

"Hedging Agreements" means non-speculative Currency Agreements, Interest Rate Agreements and Commodities Agreements entered into in the ordinary course of business.

"Hedging Obligations" of any Person means the obligations of such Person pursuant to any Hedging Agreements.

"Holder" means the Person in whose name a Note is recorded on the Registrar's books.

"Holding Company" of a Person means any other Person (other than a natural person) of which the first Person is a Subsidiary.

"IFRS" means International Financial Reporting Standards as endorsed by the European Union (a) for purposes of the covenant described under "*—Certain Covenants—Reports to Holders*", as in effect from time to time and (b) for other purposes of the Indenture, as in effect on the Issue Date. Except as otherwise set forth in the Indenture, all ratios and calculations based on IFRS contained in the Indenture shall be computed in accordance with IFRS as in effect on the Issue Date; *provided* that at any date after the Issue Date, the Issuer may, by written notice to the Trustee, make an election to establish that IFRS means IFRS as in effect on a date that is after the Issue Date and on or prior to the date of such election.

"in the ordinary course of business" means in the ordinary course of business including, without limitation, actions taken in connection with the establishment, development or conduct of the Group's Solutions business.

"Incur" has the meaning given to such term in paragraph (1) under the caption "*—Certain Covenants—Limitation on Debt*"; *provided* that any Debt or Capital Stock of a Person existing at the time such Person becomes a Subsidiary (whether by merger, consolidation, acquisition or otherwise) shall be deemed to be Incurred by such Subsidiary at the time it becomes a Subsidiary. Accrual of interest, the accretion of accreted value, the payment of interest in the form of additional Debt, and the

payment of dividends on Capital Stock constituting Debt in the form of additional shares of the same class of Capital Stock, will not be deemed to be an Incurrence of Debt. Any Debt issued at a discount (including Debt on which interest is payable through the issuance of additional Debt) shall be deemed Incurred at the time of original issuance of the Debt at the initial accreted amount thereof.

"Independent Financial Advisor" means an investment banking firm, bank, accounting firm or third-party appraiser, in any such case, of international standing; *provided* that such firm is not an Affiliate of the Issuer.

"Initial Guarantors" means Ocado Retail Limited, Ocado Operating Limited, Ocado Central Services Limited, Ocado Innovation Limited, Ocado Holdings Limited, Ocado International Holdings Limited, Marie Claire Beauty Limited and Speciality Stores Limited.

"Intercreditor Agreement" means the intercreditor agreement to be entered into on or about the Issue Date and made among, *inter alios*, the Issuer, the Trustee, Barclays Bank plc (as Revolving Agent (as defined therein)), the Security Agent, Ocado Holdings Limited as the borrower under the Amended and Restated Senior Credit Facility, and the lenders under the Amended and Restated Senior Credit Facility, as the same may be amended, waived, supplemented or otherwise modified from time to time in compliance with the Indenture.

"Interest Rate Agreements" means, in respect of a Person, any interest rate protection agreements and other types of interest rate hedging agreements (including, without limitation, interest rate swaps, caps, floors, collars and similar agreements) designed to protect such Person against or manage exposure to fluctuations in interest rates.

"Investment Grade Status" shall occur when all of the Notes receive two of the following:

(a) a rating of "BBB-" or higher from S&P;

(b) a rating of "Baa3" or higher from Moody's; and/or

(c) a rating of "BBB-" or higher from Fitch,

or the equivalent of such rating by any such rating organization or, if no rating of Moody's, Fitch or S&P then exists, the equivalent of such rating by any other Nationally Recognized Statistical Rating Organization.

"Investments" means, with respect to any Person, all direct or indirect investments by such Person in other Persons (including Affiliates) in the forms of loans (including Guarantees or other similar obligations), advances or capital contributions (excluding advances or extension of credit to officers, customers, licensees, leasees, suppliers, directors or employees made in the ordinary course of business), or purchases or other acquisitions in consideration of Debt, Capital Stock or other securities, together with all items that are or would be classified as investments on a balance sheet (excluding the notes thereto) prepared in accordance with IFRS. If the Issuer or any Subsidiary of the Issuer sells or otherwise disposes of any Capital Stock of any direct or indirect Subsidiary of the Issuer such that, after giving effect to any such sale or disposition, such Person is no longer a Subsidiary of the Issuer, the Issuer will be deemed to have made an Investment on the date of any such sale or disposition equal to the Fair Market Value of the Issuer's Investments in such Subsidiary that were not sold or disposed of in an amount determined as provided in the definition of Fair Market Value. The acquisition by Issuer or any Subsidiary of the Issuer of a Person that holds an Investment in a third Person will be deemed to be an Investment by Issuer or such Subsidiary in such third Person in an amount equal to the Fair Market Value of the Investments held by the acquired Person in such third Person in an amount determined as provided in the final sentence of paragraph (1) of the covenant described above under the caption "*—Certain Covenants—Restricted Payments*." If the Issuer or any Restricted Subsidiary issues, sells or otherwise disposes of any Capital Stock of a Person that is a Restricted Subsidiary such that, after giving effect thereto, such Person is no longer a Restricted Subsidiary, any Investment by the Issuer or any Restricted Subsidiary in such Person remaining after giving effect thereto will be deemed to be a new Investment equal to the Fair Market Value of the Capital Stock of such Subsidiary not sold or disposed of in an amount determined as provided in the final sentence of paragraph (1) of the covenant described above under the caption "*—Certain Covenants—Limitation on Restricted Payments*." The amount of any Investment outstanding at any time shall be the original cost

of such Investment, reduced (at the Issuer's option) by any dividend, distribution, interest payment, return of capital, repayment or other amount or value received in respect of such Investment.

"Issue Date" means 19 June 2017.

"Issuer" means Ocado Group plc, an English public limited liability company and any successor thereto.

"Lien" means any mortgage or deed of trust, charge, pledge, lien (statutory or otherwise), security interest, hypothecation, assignment for or by way of security or encumbrance upon or with respect to any property of any kind, real or personal, movable or immovable, now owned or hereafter acquired. A Person will be deemed to own subject to a Lien any property which such Person has acquired or holds subject to the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement.

"Limited Condition Acquisition" means any acquisition, including by way of merger, amalgamation or consolidation, by the Issuer or one or more of the Restricted Subsidiaries the consummation of which is not conditioned upon the availability of, or on obtaining, third-party financing; *provided* that Consolidated Net Income (and any other financial term derived therefrom), other than for purposes of calculating any ratios in connection with the Limited Condition Acquisition and the related transactions, shall not include any Consolidated Net Income of or attributable to the target company or assets involved in any such Limited Condition Acquisition unless and until the closing of such Limited Condition Acquisition shall have actually occurred.

"Management Advances" means loans or advances made to, or guarantees with respect to loans or advances made to, directors, officers, employees or consultants of any Parent, the Issuer or any Restricted Subsidiary:

(1) (a) in respect of travel, entertainment or moving related expenses Incurred in the ordinary course of business or (b) for purposes of funding any such person's purchase of Capital Stock or Subordinated Shareholder Debt (or similar obligations) of the Issuer, its Subsidiaries or any Parent;

(2) in respect of moving related expenses Incurred in connection with any closing or consolidation of any facility or office; or

(3) not exceeding £7.0 million in the aggregate outstanding at any time.

"Maturity" means, with respect to any debt, the date on which any principal of such debt becomes due and payable as therein or herein provided, whether at the Stated Maturity with respect to such principal or by declaration of acceleration, call for redemption or purchase or otherwise.

"MHE JVCo" means MHE JVCo Limited, a company incorporated in England and Wales with registered number 8576462, whose registered office is at Buildings One & Two Trident Place, Mosquito Way, Hatfield, Hertfordshire AL10 9UL, England. As of the Issue Date, MHE JVCo is jointly owned by a Group subsidiary and Morrisons.

"MHE JVCo Lease" means that lease agreement between a Restricted Subsidiary and MHE JVCo, existing as of the Issue Date in an outstanding principal amount not in excess of £108.1 million.

"Moody's" means Moody's Investors Service, Inc. and its successors.

"Morrisons" means Wm Morrison Supermarkets plc.

"Nationally Recognized Statistical Rating Organization" means a nationally recognized statistical rating organization within the meaning of Section 3(a)(62) of the Exchange Act.

"Net Cash Proceeds" means:

(a) with respect to any Asset Sale, the proceeds thereof in the form of cash or Cash Equivalents actually received (except to the extent that such obligations are financed or sold with recourse to the Issuer or any Restricted Subsidiary), net of:

  (i) brokerage commissions and other fees and expenses (including, without limitation, fees and expenses of legal counsel, accountants, investment banks and other consultants) related to such Asset Sale;

  (ii) provisions for all taxes paid or payable, or required to be accrued as a liability under IFRS as a result of such Asset Sale;

  (iii) all distributions and other payments required to be made to any Person (other than the Issuer or any Restricted Subsidiary) owning a beneficial interest in the assets subject to the Asset Sale; and

  (iv) appropriate amounts required to be provided by the Issuer or any Restricted Subsidiary, as the case may be, as a reserve in accordance with IFRS against any liabilities associated with such Asset Sale and retained by the Issuer or any Restricted Subsidiary, as the case may be, after such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations or potential purchase price adjustments associated with such Asset Sale, all as reflected in an Officer's Certificate delivered to the Trustee; and

(b) with respect to any capital contributions, issuance or sale of Capital Stock or options, warrants or rights to purchase Capital Stock, or debt securities or Capital Stock that have been converted into or exchanged for Capital Stock as referred to under "*—Certain Covenants—Limitation on Restricted Payments*," the proceeds of such issuance or sale in the form of cash or Cash Equivalents, payments in respect of deferred payment obligations when received in the form of, or stock or other assets when disposed of for, cash or Cash Equivalents (except to the extent that such obligations are financed or sold with recourse to the Issuer or any Restricted Subsidiary), net of attorney's fees, accountant's fees and brokerage, consultation, underwriting and other fees and expenses actually Incurred in connection with such issuance or sale and net of taxes paid or payable as a result of thereof.

"Officer" means (a) with respect to the Issuer or any Guarantor, the Chairman of the Board, the Chief Executive Officer, the Chief Financial Officer, the General Counsel or the Secretary (i) of such Person or (ii) if such Person is owned or managed by a single entity, of such entity, or (b) any other individual designated as an "Officer" for the purposes of the Indenture by the Board of Directors.

"Officer's Certificate" means with respect to any Person a certificate signed by an Officer of such Person.

"Parent" means any Person of which the Issuer at any time is or becomes a Subsidiary after the Issue Date and any holding companies established for purposes of holding an investment in any Parent.

"*Pari Passu* Debt" means Senior Debt including, without limitation, (a) any Debt of the Issuer that ranks equally in right of payment with the Notes or (b) with respect to any Guarantee, any Debt that ranks equally in right of payment to such Guarantee.

"Permitted Business" means any businesses in which the Issuer or any of its Subsidiaries or MHE JVCo is engaged on the Issue Date, or that is similar, related, complementary, incidental or ancillary thereto or an extension, development or expansion thereof (including, without limitation, the Solutions business as established, developed and conducted by the Issuer and the Restricted Subsidiaries).

"Permitted Collateral Liens" means:

(a) Liens arising by operation of law that are described in the definition of "Permitted Liens";

(b) Liens on the Collateral to secure any Debt of the Issuer or any Restricted Subsidiary that is permitted to be Incurred under clause (a), (b), (l) (but only in respect of Permitted Refinancing

Debt in respect of Permitted Debt described under clauses (b) and (t) of paragraph (2) of the covenant described under the caption *"—Certain Covenants—Limitation on Debt*"), (e)(i) (but only to the extent such guarantee is in respect of Debt that is permitted to be secured on the Collateral pursuant to any other clause of this definition), (h), (t) (*provided* that immediately following the Incurrence of Debt pursuant to such clause (t) and after giving effect thereto on a *pro forma* basis, the Consolidated Senior Secured Leverage Ratio would have been less than 3.50 to 1.00 or would not be greater than it was immediately prior to giving effect to the relevant acquisition, merger or consolidation), or (aa) of paragraph (2) of the covenant described under the caption *"—Certain Covenants—Limitation on Debt*"; and

(c) Liens on the Collateral to secure Debt incurred pursuant to clause (1) of the covenant described under the caption *"—Certain Covenants—Limitation on Debt*"; *provided* that following the Incurrence of Debt pursuant to clause (1) and after giving effect thereto on a *pro forma* basis, the Consolidated Senior Secured Leverage Ratio would have been less than 3.50 to 1.00, or Permitted Refinancing Debt in respect thereof;

provided, however, that, with respect to clauses (b) and (c) above, any such Lien ranks equal or junior to all other Liens on such Collateral securing the Notes or the Guarantees and each of the secured parties to any such Debt (acting directly or through its respective creditor representative) will have entered into the Intercreditor Agreement or an Additional Intercreditor Agreement.

A Lien shall be deemed to rank equally with another Lien notwithstanding (i) any different preference or hardening period applicable thereto, (ii) any other difference in priority so long as an "assignment of ranking" or other sharing arrangement has been entered into by or for the benefit of beneficiaries of each such Lien or (iii) any difference in validity or enforceability.

For purposes of determining compliance with this definition, (i) a Lien need not be incurred solely by reference to one category of Permitted Collateral Liens described in this definition but may be incurred under any combination of such categories (including in part under one such category and in part under any other such category), (ii) in the event that a Lien (or any portion thereof) meets the criteria of one or more of such categories of Permitted Collateral Liens, the Issuer shall, in its sole discretion, classify or reclassify such Lien (or any portion thereof) in any manner that complies with this definition, (iii) the principal amount of Debt secured by a Lien outstanding under any category of Permitted Collateral Liens shall be determined after giving effect to the application of proceeds of any such Debt to refinance any such other Debt, (iv) any Lien securing Debt that was permitted to secure such Debt at the time of the Incurrence of such Debt shall also be permitted to secure any increase in the amount of such Debt in connection with the accrual of interest and the accretion of accreted value, (v) if any Debt or other obligation is secured by any Lien outstanding under any category of Permitted Collateral Liens measured by reference to a percentage of Consolidated Total Assets at the time of incurrence of such Debt or other obligations, and is refinanced by any Debt or other obligation secured by any Lien incurred by reference to such category of Permitted Collateral Liens, and such refinancing would cause the percentage of Consolidated Total Assets to be exceeded if calculated based on the Consolidated Total Assets on the date of such refinancing, such percentage of Consolidated Total Assets shall not be deemed to be exceeded (and such refinancing Lien shall be deemed permitted) so long as the principal amount of such refinancing Debt or other obligation does not exceed an amount equal to the principal amount of such Debt or other obligation being refinanced, *plus* the aggregate amount of fees, underwriting discounts, premiums and other costs and expenses (including accrued and unpaid interest) incurred or payable in connection with such refinancing and (vi) if any Debt or other obligation is secured by any Lien outstanding under any category of Permitted Collateral Liens measured by reference to an amount in sterling, and is refinanced by any Debt or other obligation secured by any Lien incurred by reference to such category of Permitted Collateral Liens, and such refinancing would cause such sterling amount to be exceeded, such sterling amount shall not be deemed to be exceeded (and such refinancing Lien shall be deemed permitted) so long as the principal amount of such refinancing Debt or other obligation does not exceed an amount equal to the principal amount of such Debt being refinanced, *plus* the aggregate amount of fees, underwriting discounts, premiums and other costs and expenses (including accrued and unpaid interest) incurred or payable in connection with such refinancing.

"Permitted Debt" has the meaning given to such term under "*—Certain Covenants—Limitation on Debt*."

"Permitted Investments" means any of the following (in each case made by the Issuer or any of the Restricted Subsidiaries):

(a) Investments in cash or Cash Equivalents;

(b) intercompany Debt to the extent permitted under clause (d) of the definition of "Permitted Debt;"

(c) Investments in: (i) the Issuer; (ii) a Restricted Subsidiary (including the Capital Stock of a Restricted Subsidiary); or (iii) another Person (including the Capital Stock of such Person) if as a result of such Investment such other Person becomes a Restricted Subsidiary or such other Person is merged or consolidated or amalgamated with or into, or transfers or conveys all or substantially all of its assets to, or is liquidated into, the Issuer or a Restricted Subsidiary;

(d) Investments as a result of or retained in connection with an Asset Sale permitted under or made in compliance with "*—Certain Covenants—Limitation on Asset Sales*" to the extent such Investments are non-cash proceeds permitted thereunder;

(e) Investments (i) in payroll, travel, entertainment, moving, other relocation and similar advances to cover matters that are expected at the time of such advances to be treated as expenses in accordance with IFRS and (ii) Investments in the ordinary course of business consisting of endorsements for collection or deposit and customary trade arrangement with customers;

(f) Management Advances;

(g) Investments in the Notes, any Additional Notes and other Debt of the Issuer or any Restricted Subsidiary;

(h) Investments existing, or made pursuant to legally binding commitments in existence, at the Issue Date and any Investment that amends, extends, renews, replaces or refinances an Investment existing on the date of the Indenture; *provided* that the amount of any such Investment may be increased (i) as required by the terms of such Investment as in existence on the Issue Date or (ii) as otherwise not prohibited under the Indenture;

(i) Investments in Hedging Agreements permitted under clause (2)(h) of "*—Certain Covenants—Limitation on Debt*;"

(j) Investments in a Person to the extent that the consideration therefor consists of the Issuer's Qualified Capital Stock or the net proceeds of the substantially concurrent issue and sale (other than to any Subsidiary) of shares of the Issuer's Qualified Capital Stock or Subordinated Shareholder Debt;

(k) any Investments received (i) in satisfaction of judgments, foreclosure, perfection or enforcement of any liens or settlement of debts, (ii) in compromise of obligations of such persons that were Incurred in the ordinary course of business, including pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of any trade creditor or customer or (iii) in compromise or resolution of obligations of trade creditors or customers that were incurred in the ordinary course of business of the Issuer or any of the Restricted Subsidiaries, including pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of any trade creditor or customer; or (iv) litigation, arbitration or other disputes;

(l) any transaction to the extent constituting an Investment that is permitted and made in accordance with the provisions of clauses (a), (g), (h) and (i) of paragraph (2) of the covenant described under "*—Certain Covenants—Limitation on Transactions with Affiliates*";

(m) lease, utility and workers' compensation, performance and other similar deposits made in the ordinary course of business;

(n) Investments consisting of purchases and acquisitions of inventory, supplies, trading stock, materials and equipment or licenses or leases of intellectual property, in any case, either in the ordinary course of business or in furtherance of a Permitted Business and, in either case, as not prohibited by the Indenture;

(o) guarantees permitted to be incurred under the "*Limitation on Debt*" covenant and (other than with respect to, or given in connection with the incurrence of, Debt) guarantees, keepwells and similar arrangements in the ordinary course of business;

(p) pledges or deposits with respect to leases or utilities provided to third parties in the ordinary course of business or liens otherwise described in the definition of "Permitted Liens" or made in connection with Liens permitted under the covenant "*Limitation on Liens*;"

(q) (i)(x) a minority Investment in any Person engaged in a Permitted Business and (y) Investments by the Issuer or any Restricted Subsidiary in Qualified Joint Ventures or Unrestricted Subsidiaries, including a guarantee thereof or loans or letter of credit thereto, the amount of which, measured by reference to the Fair Market Value of each such Investment on the day it was made but net of any distributions, dividends payments or other returns in respect of such Investments, not to exceed the greater of £ 25.0 million and 3.6% of Consolidated Total Assets in the aggregate outstanding at any one time and (ii) any Investment; *provided* that on the date such Investment is made the Consolidated Leverage Ratio would be less than 3.50 to 1.00 on a *pro forma* basis after giving effect to such Investment; *provided*, that if an Investment is made pursuant to this clause (q) in a Person that is not a Restricted Subsidiary and such Person subsequently becomes a Restricted Subsidiary or is subsequently designated a Restricted Subsidiary pursuant to the covenant described above under the caption *"—Certain Covenants—Limitation on Restricted Payments*," such Investment shall thereafter be deemed to have been made pursuant to clause (c) of the definition of "Permitted Investments" and not this clause (q);

(r) Investments acquired after the Issue Date as a result of the acquisition by the Issuer or any of the Restricted Subsidiaries of another Person, including by way of a merger, amalgamation or consolidation with or into the Issuer or any of the Restricted Subsidiaries in a transaction that is not prohibited by the covenant described above under the caption "*—Certain Covenants—Merger, Consolidation or Sale of Assets*" to the extent that such Investments were not made in contemplation of such acquisition, merger, amalgamation or consolidation and were in existence on the date of such acquisition, merger, amalgamation or consolidation;

(s) [reserved];

(t) (i) Investments in receivables owing to the Issuer or any Restricted Subsidiary created or acquired in the ordinary course of business and (ii) advance payments made in relation to capital expenditures in the ordinary course of business;

(u) any acquisition of assets or Capital Stock solely in exchange for the issuance of the Issuer's Capital Stock (other than Redeemable Capital Stock);

(v) [reserved]; and

(w) other Investments in any Person having an aggregate Fair Market Value (measured on the date each such Investment was made but net of any distributions, dividends payments or other returns in respect of such Investments), when taken together with all other Investments made pursuant to this clause (w) that are at the time outstanding, not to exceed the greater of £20.0 million or 2.9% of Consolidated Total Assets; *provided* that, if an Investment is made pursuant to this clause (w) in a Person that is not a Restricted Subsidiary and such Person subsequently becomes a Restricted Subsidiary or is subsequently designated a Restricted Subsidiary pursuant to the covenant described under "*—Certain Covenants—Limitation on Restricted Payments*," such Investment shall thereafter be deemed to have been made pursuant to clause (c) of the definition of "Permitted Investments" and not this clause (w).

"Permitted Liens" means the following types of Liens:

(a) Liens existing or contemplated by written arrangements as of the Issue Date;

(b) Liens on any property or assets of a Restricted Subsidiary granted in favor of the Issuer or any Restricted Subsidiary;

(c) Liens securing Debt (including Liens securing any obligations in respect thereof) consisting of (i) the Notes or the Guarantees, as the case may be, or (ii) Debt of any Restricted Subsidiary that is not a Guarantor (limited, in the case of this clause (c)(ii), to Liens on any of the property and assets of any Restricted Subsidiary that is not a Guarantor);

(d) any interest or title of a lessor under any lease or any Capitalised Lease Obligation;

(e) Liens to secure Debt (including Capitalised Lease Obligations) permitted by clause (2)(f) of "*—Certain Covenants—Limitation on Debt*";

(f) Liens arising out of conditional sale, title retention, consignment, deferred payment, supply agreements or similar arrangements for the sale or purchase of goods entered into by the Issuer or any Restricted Subsidiary in the ordinary course of business;

(g) statutory Liens of landlords and carriers, warehousemen, mechanics, suppliers, materialmen, repairmen, employees, pension plan administrators or other like Liens arising in the ordinary course of the Issuer's or any Restricted Subsidiary's business and with respect to amounts not yet delinquent for more than 60 days or being contested in good faith by appropriate proceedings and for which a reserve or other appropriate provision, if any, as shall be required in conformity with IFRS shall have been made;

(h) Liens arising solely by virtue of any statutory or common law provisions relating to attorney's liens or bankers' liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained with a creditor depositary institution;

(i) Liens for taxes, assessments, government charges or claims that are not yet delinquent or that are being contested in good faith by appropriate proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with IFRS shall have been made;

(j) Liens Incurred or deposits made to secure the performance of tenders, bids or trade or government contracts, or to secure leases, statutory or regulatory obligations, trade contracts, surety or appeal bonds, performance bonds or other obligations of a like nature Incurred in the ordinary course of business;

(k) zoning restrictions, survey exceptions, easements, licenses, reservations, title defects, rights of others for rights -of-way, utilities, sewers, electrical lines, telephone lines, telegraph wires, restrictions, encroachments and other similar charges, encumbrances or title defects incurred in the ordinary course of business that do not in the aggregate materially interfere with in any material respect the ordinary conduct of the business of the Issuer and the Restricted Subsidiaries on the properties subject thereto, taken as a whole;

(l) (a) mortgages, liens, security interests, restrictions, encumbrances or any other matters of record that have been placed by any developer, landlord or other third party on property over which the Issuer or any Restricted Subsidiary has easement rights or on any real property leased by the Issuer or any Restricted Subsidiary and subordination or similar agreements relating thereto and (b) any condemnation or eminent domain proceedings or compulsory purchase order affecting real property;

(m) Liens on property or assets under construction (and related rights) in favor of a contractor or developer or arising from progress or partial payments by a third party relating to such property or assets;

(n) Liens arising by reason of any judgment, decree or order of any court so long as such Lien is adequately bonded and any appropriate legal proceedings that may have been duly initiated for the review of such judgment, decree or order shall not have been finally terminated or the period within which such proceedings may be initiated shall not have expired;

(o) Liens on property of, or on shares of Capital Stock or Debt of, any Person existing at the time such Person is acquired by, merged with or into or consolidated with, the Issuer or any Restricted Subsidiary (or at the time the Issuer or a Restricted Subsidiary acquires such property, Capital Stock or Debt); *provided* that such Liens: (i) do not extend to or cover any property or assets of the Issuer or any Restricted Subsidiary other than the property or assets acquired or than those of the Person merged into or consolidated with the Issuer or Restricted Subsidiary; and (ii) were created prior to, and not in connection with or in contemplation of, such acquisition, merger, consolidation, amalgamation or other combination;

(p) Liens securing the Issuer's or any Restricted Subsidiary's obligations under Hedging Agreements permitted under clause (2)(h) "*—Certain Covenants—Limitation on Debt*" or any collateral for the Debt to which such Hedging Agreements relate;

(q) Liens Incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security or other insurance;

(r) Liens Incurred in connection with any cash management program established in the ordinary course of business for the Issuer's or any Restricted Subsidiary's benefit;

(s) Liens made to secure obligations arising from statutory, regulatory, contractual, or warranty requirements of the Issuer or any Restricted Subsidiary, including rights of offset and set-off;

(t) Liens on assets of a Restricted Subsidiary that is not a Guarantor to secure Debt of such Restricted Subsidiary (or any other Restricted Subsidiary that is not a Guarantor) and that is otherwise not prohibited under the Indenture;

(u) any extension, renewal or replacement, in whole or in part, of any Lien (excluding any Liens pursuant to clause (x) of this definition); *provided* that any such extension, renewal or replacement shall be no more restrictive in any material respect than the Lien so extended, renewed or replaced and shall not extend in any material respect to any additional property or assets;

(v) Liens securing Debt Incurred to refinance Debt that has been secured by a Lien (excluding any Liens pursuant to clause (x) of this definition) permitted by the Indenture; *provided* that: (i) any such Lien shall not extend to or cover any assets not securing the Debt so refinanced; and (ii) the Debt so refinanced shall have been permitted to be Incurred;

(w) purchase money Liens to finance property or assets of the Issuer or any Restricted Subsidiary acquired in the ordinary course of business; *provided* that: (i) the related purchase money Debt shall not exceed the cost of such property or assets and shall not be secured by any property or assets of the Issuer or any Restricted Subsidiary other than the property and assets so acquired; and (ii) the Lien securing such Debt shall be created within 90 days of any such acquisitions;

(x) Liens Incurred by the Issuer or any Restricted Subsidiary with respect to obligations that do not exceed the greater of £25.0 million or 3.6% of Consolidated Total Assets at any one time outstanding;

(y) Liens resulting from escrow arrangements, including in respect of software or other intangible assets, entered into in connection with any type of disposition, including by way of license, of assets;

(z) any right of refusal, right of first offer, option or other arrangement to sell or otherwise dispose of an asset of the Issuer or any Restricted Subsidiary;

(aa) leases, subleases, licenses, sublicenses and other conveyances of assets (including real property) entered into in the ordinary course of business;

(bb) [reserved];

(cc) any encumbrance or restriction (including, but not limited to, pursuant to put and call agreements or buy/ sell arrangements) with respect to Capital Stock of any joint venture or similar arrangement pursuant to any joint venture or similar agreement;

(dd) Liens (including put and call arrangements) on Capital Stock, Debt or other securities of an Unrestricted Subsidiary or a joint venture that is not a Subsidiary of the Issuer that secure Debt or other obligations of such Unrestricted Subsidiary or joint venture respectively;

(ee) Liens on insurance policies and proceeds thereof, or other deposits, to secure insurance premium financings; or

(ff) Liens on cash, Cash Equivalents or other property arising in connection with the defeasance, discharge or redemption of Debt.

For purposes of determining compliance with this definition, (i) a Lien need not be incurred solely by reference to one category of Permitted Liens described in this definition but may be incurred under any combination of such categories (including in part under one such category and in part under any other such category), (ii) in the event that a Lien (or any portion thereof) meets the criteria of one or more of such categories of Permitted Liens, the Issuer shall, in its sole discretion, classify or reclassify such Lien (or any portion thereof) in any manner that complies with this definition, (iii) the principal amount of Debt secured by a Lien outstanding under any category of Permitted Liens shall be determined after giving effect to the application of proceeds of any such Debt to refinance any such other Debt, (iv) any Lien securing Debt that was permitted to secure such Debt at the time of the Incurrence of such Debt shall also be permitted to secure any increase in the amount of such Debt in connection with the accrual of interest and the accretion of accreted value, (v) if any Debt or other

obligation is secured by any Lien outstanding under any category of Permitted Liens measured by reference to a percentage of Consolidated Total Assets at the time of incurrence of such Debt or other obligations, and is refinanced by any Debt or other obligation secured by any Lien incurred by reference to such category of Permitted Liens, and such refinancing would cause the percentage of Consolidated Total Assets to be exceeded if calculated based on the Consolidated Total Assets on the date of such refinancing, such percentage of Consolidated Total Assets shall not be deemed to be exceeded (and such refinancing Lien shall be deemed permitted) so long as the principal amount of such refinancing Debt or other obligation does not exceed an amount equal to the principal amount of such Debt or other obligation being refinanced, *plus* the aggregate amount of fees, underwriting discounts, premiums and other costs and expenses (including accrued and unpaid interest) incurred or payable in connection with such refinancing and (vi) if any Debt or other obligation is secured by any Lien outstanding under any category of Permitted Liens measured by reference to an amount in sterling, and is refinanced by any Debt or other obligation secured by any Lien incurred by reference to such category of Permitted Liens, and such refinancing would cause such sterling amount to be exceeded, such sterling amount shall not be deemed to be exceeded (and such refinancing Lien shall be deemed permitted) so long as the principal amount of such refinancing Debt or other obligation does not exceed an amount equal to the principal amount of such Debt being refinanced, *plus* the aggregate amount of fees, underwriting discounts, premiums and other costs and expenses (including accrued and unpaid interest) incurred or payable in connection with such refinancing.

"Permitted Parent Payments" means, without duplication as to amounts, payments to any Parent to permit such entity to pay:

(a) customary indemnification obligations of any Parent owing to directors, officers, employees or other Persons under its articles of incorporation, charter or by-laws or pursuant to written agreements with any such Person to the extent relating to the Issuer and/or its Subsidiaries;

(b) obligations of any Parent in respect of directors' fees, remuneration and expenses (including director and officer insurance (including premiums therefore)) to the extent relating to the Issuer and/or its Subsidiaries;

(c) professional fees and expenses of any Parent related to the ownership of the Capital Stock of the Issuer and its Subsidiaries (including, without limitation, accounting, legal, audit corporate reporting, and administrative expenses and other reasonable and normal course expenses required to maintain such Parent's corporate existence or its holding of the Capital Stock of the Issuer);

(d) any income taxes to the extent such income taxes are attributable to the income of the Parent derived from the Issuer and its Subsidiaries or the Issuer and its Subsidiaries and reduced by any such income taxes directly paid by the Issuer or any of its Subsidiaries; and

(e) expenses incurred by any Parent in connection with any public offering or other sale of Capital Stock or Debt, (i) where the net proceeds of such offering or sale are intended to be received by or contributed to the Issuer or a Subsidiary of the Issuer or (ii) in a pro-rated amount of such expenses in proportion to the amount of such net proceeds intended to be so received or contributed to the Issuer or a Subsidiary of the Issuer.

"Permitted Refinancing Debt" means any renewals, extensions, substitutions, defeasances, discharges, refinancings, exchanges or replacements (each, for purposes of this definition and paragraph (2) of "*—Certain Covenants—Limitation on Debt*," a "refinancing") of any Debt of the Issuer or a Restricted Subsidiary or pursuant to this definition, including any successive refinancings, as long as:

(a) such Debt is in an aggregate principal amount (or if Incurred with original issue discount, an aggregate issue price) not in excess of the sum of: (i) the aggregate principal amount (or if Incurred with original issue discount, the aggregate accreted value) then outstanding of the Debt being refinanced; and (ii) an amount necessary to pay any fees and expenses, including premiums and defeasance costs, related to such refinancing;

(b) if the Debt being refinanced is Subordinated Debt, the Stated Maturity of such Debt is no earlier than the Stated Maturity of the Debt being refinanced or, if shorter, the Stated Maturity of the Notes; and

(c) if the Debt being refinanced is subordinated in right of payment to the Notes or the Guarantees (as applicable), such Permitted Refinancing Debt is subordinated in right of payment to, the Notes or the Guarantees (as applicable) on terms at least as favourable to the holders of Notes as those contained in the documentation governing the Debt being renewed, extended, substituted, defeased, discharged, refinanced or replaced.

"Person" means any individual, corporation, limited liability company, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Pre-Expansion European Union" means the European Union as of 1 January 2004, including the countries of Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom, but not including any country which became or becomes a member of the European Union after 1 January 2004.

"Preferred Stock" means, with respect to any Person, Capital Stock of any class or classes (however designated) of such Person that is preferred as to the payment of dividends or distributions, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over the Capital Stock of any other class of such Person, whether now outstanding or issued after the Issue Date and including, without limitation, all classes and series of preferred or preference stock of such Person.

"*pro forma*" means, with respect to any calculation made or required to be made pursuant to the terms of the Notes, a calculation made in good faith by the Issuer's chief financial officer.

"Property" means, with respect to any Person, any interest of such Person in any kind of property or asset, whether real, personal or mixed, or tangible or intangible, including Capital Stock and other securities of, any other Person. For purposes of any calculation required pursuant to the Indenture, the value of any Property shall be its Fair Market Value.

"Public Debt" means any Debt consisting of bonds, debentures, notes or other similar debt securities issued in (1) a public offering registered under the U.S. Securities Act or (2) a private placement to institutional investors that is underwritten for resale in accordance with Rule 144A or Regulation S under the U.S. Securities Act, whether or not it includes registration rights entitling the holders of such debt securities to registration thereof with the Commission for public resale. The term "Public Debt" shall not include (i) the Notes, (ii) any Debt issued to institutional investors in a direct placement of such Debt that is not underwritten by an intermediary (it being understood that, without limiting the foregoing, a financing that is distributed to not more than ten Persons (*provided* that multiple managed accounts and affiliates of any such Persons shall be treated as one Person for the purposes of this definition) shall be deemed not underwritten), (iii) any bank Debt, commercial bank or similar Debt, Capitalised Lease Obligation or recourse transfer of any financial asset or (iv) any other type of Debt Incurred in a manner not customarily viewed as a "securities offering."

"Qualified Capital Stock" of any Person means any and all Capital Stock of such Person other than Redeemable Capital Stock.

"Qualified Joint Venture" means a joint venture in which the Issuer or any of the Restricted Subsidiaries has a direct or indirect ownership interest that is engaged in a Permitted Business and that is not a Subsidiary of (i) the Issuer or (ii) any of the Restricted Subsidiaries.

"Redeemable Capital Stock" means any class or series of Capital Stock that, either by its terms, by the terms of any security into which it is convertible or exchangeable or by contract or otherwise, is, or upon the happening of an event or passage of time would be, required to be redeemed prior to the final Stated Maturity of the Notes or is redeemable at the option of the Holder thereof at any time prior to such final Stated Maturity (other than upon a change of control of the Issuer in circumstances in which the holders of the Notes would have similar rights), or is convertible into or exchangeable for debt securities at any time prior to such final Stated Maturity; provided that any Capital Stock that would constitute Qualified Capital Stock but for provisions thereof giving holders thereof the right to require such Person to repurchase or redeem such Capital Stock upon the occurrence of any "asset sale" or "change of control" occurring prior to the Stated Maturity of the Notes will not constitute

Redeemable Capital Stock if the "asset sale" or "change of control" provisions applicable to such Capital Stock are no more favourable to the holders of such Capital Stock than the provisions contained in *"—Certain Covenants—Limitation on Asset Sales*" and *"—Certain Covenants— Change of Control*" and such Capital Stock specifically provides that such Person will not repurchase or redeem any such stock pursuant to such provision prior to the Issuer's repurchase of such Notes as are required to be repurchased pursuant to "*—Certain Covenants—Limitation on Asset Sales*" and "*—Certain Covenants—Change of Control*."

"Replacement Assets" means (i) non-current properties and assets (including Capital Stock of a Person that is or becomes a Restricted Subsidiary and such Restricted Subsidiary's property, business or assets are used or useful in a Permitted Business or any and all businesses that in the good faith judgment of the Board of Directors of the Issuer are reasonably related) that replace the properties and assets that were the subject of an Asset Sale, or (ii) non-current properties and assets that are used or useful in a Permitted Business or any and all businesses that in the good faith judgment of the Board of Directors of the Issuer are reasonably related.

"Restricted Investment" means an Investment other than a Permitted Investment.

"Restricted Subsidiary" means any Subsidiary of the Issuer other than an Unrestricted Subsidiary and, for the purposes of this definition, and subject to the covenant described under "*—Certain Covenants—Designation of Unrestricted and Restricted Subsidiaries*", shall be deemed to include MHE JVCo, which shall, for purposes of financial calculations under the Indenture, be accounted for as if it were a Subsidiary of the Issuer.

"S&P" means Standard and Poor's Ratings Service, a division of The McGraw-Hill Companies, Inc. and its successors.

"Secured Debt" means, as of any date of determination, the principal amount of Debt of the Issuer and the Restricted Subsidiaries that would be stated on the balance sheet of the Issuer and the Restricted Subsidiaries on a consolidated basis on such date and that is secured by Liens on the Collateral.

"Securities Act" means the U.S. Securities Act of 1933, as amended, or any successor statute, and the rules and regulations promulgated by the Commission thereunder.

"Security Agent" means HSBC Corporate Trustee Company (UK) Limited in its capacity as security agent for the secured creditors under the Intercreditor Agreement or any Additional Intercreditor Agreement or any successor thereto appointed in accordance with the Intercreditor Agreement or any Additional Intercreditor Agreement.

"Security Documents" means the security arrangements, charge agreements, collateral assignments, debentures and any other instrument and document executed and delivered pursuant to the Intercreditor Agreement or any of the foregoing, and in each case pursuant to which the Collateral is charged, assigned or granted to or on behalf of the Security Agent for the benefit of the holders of the Notes and the Trustee or notice of such charge, assignment or grant is given, in each case as the same may be amended, supplemented or otherwise modified from time to time.

"Security Interest" has the meaning assigned thereto under the heading "*—Security—Priority*."

"Senior Debt" means (i) any Debt of the Issuer or any Guarantor that is either secured or not Subordinated Debt and (ii) any Debt of a Restricted Subsidiary that is not a Guarantor other than Debt Incurred pursuant to clause (2)(d) of the covenant described under the heading "*—Certain Covenants—Limitation on Debt*."

"Significant Subsidiary" means any Restricted Subsidiary that would be a "significant subsidiary" of the Issuer within the meaning of Rule 1-02 (but excluding clause (1) of the definition of "significant subsidiary") under Regulation S-X promulgated by the SEC, as in effect on the Issue Date.

"Stated Maturity" means, when used with respect to any Note or any installment of interest thereon, the date specified in such Note as the fixed date on which the principal of such Note or such

installment of interest, respectively, is due and payable, and, when used with respect to any other debt, means the date specified in the instrument governing such debt as the fixed date on which the principal of such debt, or any installment of interest thereon, is due and payable.

"Sterling" means the lawful currency of the United Kingdom.

"Sterling Equivalent" means, with respect to any monetary amount in a currency other than Sterling, at any time for the determination thereof, the amount of Sterling obtained by converting such foreign currency involved in such computation into Sterling at the spot rate for the purchase of Sterling with the applicable foreign currency as published under "Currency Rates" in the section of The Financial Times entitled "Currencies, Bonds & Interest Rates" on the date two Business Days prior to such determination.

"Subordinated Debt" means Debt of the Issuer or any of the Guarantors that is expressly subordinated in right of payment to the Notes or the Guarantees of such Guarantors, as the case may be.

"Subordinated Shareholder Debt" means, collectively, any funds provided to the Issuer by any direct or indirect Parent of the Issuer, or Affiliate of such Parent, pursuant to any security, instrument or agreement, other than Capital Stock, that pursuant to its terms:

(a) does not (including upon the happening of any event) mature or require any amortisation or other payment of principal prior the first anniversary of the maturity of the Notes (other than through conversion or exchange of any such security or instrument for Qualified Capital Stock or for any other security or instrument meeting the requirements of the definition);

(b) does not (including upon the happening of any event) require the payment in cash or otherwise, of interest or any other amounts prior to the first anniversary of the maturity of the Notes (*provided* that interest may accrete while such Subordinated Shareholder Debt is outstanding and accretion interest may become due upon maturity as permitted by clause (a) or acceleration of maturity as permitted by clause (c) below and any interest may be satisfied at any time by the issue to the holders thereof of additional Subordinated Shareholder Debt);

(c) does not (including upon the happening of any event) provide for the acceleration of its maturity and its holders have no right (including upon the happening of any event) to declare a default or event of default or take any enforcement action, prior to the first anniversary of the maturity of the Notes;

(d) is not secured by a Lien or any assets of the Issuer or a Restricted Subsidiary and is not guaranteed by any Subsidiary of the Issuer;

(e) is contractually subordinated and junior in right of payment to the prior payment in full in cash of all obligations (including principal, interest, premium (if any) and Additional Amounts (if any)) of the Issuer under the Notes and the Guarantors under the Guarantees; and

(f) is not (including upon the happening of any event) mandatorily convertible or exchangeable, or convertible or exchangeable at the option of the holder, in whole or in part, prior to the date on which the Notes mature other than into or for Qualified Capital Stock of the Issuer;

provided that in any event or circumstance that results in such Debt ceasing to qualify as Subordinated Shareholder Debt, such Debt shall constitute an Incurrence of such Debt by the Issuer, and any and all Restricted Payments made through the use of the net proceeds from the Incurrence of such Debt since the date of the original issuance of such Subordinated Shareholder Debt shall constitute new Restricted Payments that are deemed to have been made after the date of the original issuance of such Subordinated Shareholder Debt.

"Subsidiary" means, with respect to any Person:

(a) a corporation a majority of whose Voting Stock is at the time, directly or indirectly, owned by such Person, by one or more Subsidiaries of such Person or by such Person and one or more Subsidiaries of such Person; and

(b) any other Person (other than a corporation), including, without limitation, a partnership, limited liability company, business trust or joint venture, in which such Person, one or more Subsidiaries of such Person or such Person and one or more Subsidiaries thereof, directly or indirectly, at the date of determination thereof, has at least majority ownership interest entitled to vote in the election of directors, managers or trustees thereof (or other Person performing similar functions).

"Successor Parent" with respect to any Person means any other Person with more than 50% of the total voting power of the Voting Stock of which is, at the time the first Person becomes a Subsidiary of such other Person, "beneficially owned" (as defined below) by one or more Persons that "beneficially owned" (as defined below) more than 50% of the total voting power of the Voting Stock of the first Person immediately prior to the first Person becoming a Subsidiary of such other Person. For purposes hereof, "beneficially own" has the meaning correlative to the term "beneficial owner", as such term is defined in Rules 13d-3 and 13d-5 under the Exchange Act (as in effect on the Issue Date).

"Tax Sharing Agreement" means any tax consolidation agreement or any similar arrangements in respect of any consolidated, combined, affiliated or unitary tax group or an arrangement relating to the surrender of group relief to which the Issuer or any of the Restricted Subsidiaries is a party.

"U.K. Government Obligations" means direct obligations (or certificates representing an ownership interest in such obligations) of the United Kingdom (including any agency or instrumentality thereof) for the payment of which the full faith and credit of such government is given.

"Unrestricted Subsidiary" means:

(a) subject to the covenant described under *"—Certain Covenants—Designation of Unrestricted and Restricted Subsidiaries*", Atlas Insurance PCC Limited; and

(b) any Subsidiary of the Issuer that at the time of determination is an Unrestricted Subsidiary (as designated by the Issuer's Board of Directors pursuant to the covenant under the caption "*—Certain Covenants—Designation of Unrestricted and Restricted Subsidiaries*") and (y) any Subsidiary thereof.

"U.S. dollars" means the lawful currency of the United States of America.

"Voting Stock" means any class or classes of Capital Stock pursuant to which the holders thereof have the general voting power under ordinary circumstances to elect at least a majority of the Board of Directors, managers or trustees (or Persons performing similar functions) of any Person (irrespective of whether or not, at the time, stock of any other class or classes shall have, or might have, voting power by reason of the happening of any contingency).

BOOK-ENTRY; DELIVERY AND FORM

General

Notes sold within the United States to qualified institutional buyers in reliance on Rule 144A under the Securities Act will initially be represented by a global note in registered form without interest coupons attached (the "Rule 144A Global Note"). Notes sold to non-U.S. persons outside the United States in reliance on Regulation S under the Securities Act will initially be represented by a global note in registered form without interest coupons attached (the "Regulation S Global Note" and, together with the Rule 144A Global Note, the "Global Notes"). The Global Notes will be deposited, on the closing date, with a common depositary for Euroclear and Clearstream and registered in the name of the nominee of the common depositary for the accounts of Euroclear and Clearstream.

Ownership of interests in the 144A Global Note ("144A Book-Entry Interests") and ownership of interests in the Regulation S Global Note (the "Regulation S Book-Entry Interests," and together with the 144A Book-Entry Interests, the "Book-Entry Interests") will be limited to persons that have accounts with Euroclear and/or Clearstream or persons that hold interests through such participants. Euroclear and Clearstream will hold interest in the Global Notes on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositaries. Book-Entry Interests will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by Euroclear and Clearstream and their participants. The Book-Entry Interests in Global Notes will be issued only in denominations of £100,000 and in integral multiples of £1,000 in excess thereof.

Except under the limited circumstances described below, Book-Entry Interests will not be held in definitive form. Instead, Euroclear and/or Clearstream will credit on their respective book-entry registration and transfer systems a participant's account with the interest beneficially owned by such participant. The laws of some jurisdictions, including certain states of the United States, may require that certain purchasers of securities take physical delivery of such securities in definitive certificated form. The foregoing limitations may impair the ability to own, transfer or pledge Book-Entry Interests. In addition, while the Notes are in global form, owners of interest in the Global Notes will not have the Notes registered in their names, will not receive physical delivery of the Notes in certificated form and will not be considered the registered owners or "holder" of Notes under the Indenture for any purpose.

So long as the Notes are held in global form, Euroclear and/or Clearstream (or their respective nominees), as applicable, will be considered the holders of Global Notes for all purposes under the Indenture. As such, participants must rely on the procedures of Euroclear and/or Clearstream and indirect participants must rely on the procedures of Euroclear and/or Clearstream and the participants through which they own Book-Entry Interests in order to exercise any rights of holders under the Indenture.

To the extent permitted by law, the Issuer, the Trustee, the Paying Agent, the Transfer Agent and the Registrar shall be entitled to treat the registered holder of any Global Note as the absolute owner thereof and no person will be liable for treating the registered holder as such. Ownership of the Global Notes will be evidenced through registration from time to time at the registered office of the Issuer, and such registration is a means of evidencing title to the Notes.

None of the Issuer, the Guarantors, or the Trustee under the Indenture nor any of the Issuer's respective agents will have any responsibility or be liable for any aspect of the records relating to the Book-Entry Interests.

Issuance of Definitive Registered Notes

Under the terms of the Indenture, owners of Book-Entry Interests will receive definitive Notes in registered form (the "Definitive Registered Notes"):

- if Euroclear or Clearstream notifies the Issuer that it is unwilling or unable to continue to act as depositary and a successor depositary is not appointed by the Issuer within 120 days;
- if the Issuer, at its option, notifies the Trustee in writing that it elects to exchange in whole, but not in part, the Global Note for Definitive Notes;

- if Euroclear or Clearstream so requests following an event of default under the Indenture; or
- if the owner of a Book-Entry Interest requests such exchange in writing delivered through Euroclear and/or Clearstream, as applicable, following an event of default under the Indenture.

In such an event, the Registrar will issue Definitive Registered Notes, registered in the name or names of the relevant holders and issued in any approved denominations, requested by or on behalf of Euroclear and/or Clearstream or the Issuer, as applicable (in accordance with their respective customary procedures and based upon directions received from participants reflecting the beneficial ownership of Book-Entry Interests), and such Definitive Registered Notes will bear the restrictive legend referred to in "*Notice to Investors,"* unless that legend is not required by the Indenture or applicable law.

So long as the Notes are listed on the Official List of the Exchange and admitted for trading on the Global Exchange Market, the Issuer will publish a notice of any issuance of Definitive Registered Notes in a newspaper having general circulation in Ireland (which is expected to be The Irish Times). Payment of principal, any repurchase price, premium and interest on the Definitive Registered Notes will be payable at the office of the paying agent in Ireland so long as the Notes are listed on the Official List of the Exchange and admitted for trading on the Global Exchange Market.

We will not impose any fees or other charges in respect of the Notes; however, owners of the Book-Entry Interests may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear and/or Clearstream, as applicable.

Redemption of Global Notes

In the event any Global Note, or any portion thereof, is redeemed, Euroclear and/or Clearstream, as applicable, will distribute the amount received by it in respect of the Global Note so redeemed to the holders of the Book-Entry Interests in such Global Note from the amount received by it in respect of the redemption of such Global Note. The redemption price payable in connection with the redemption of such Book-Entry Interests will be equal to the amount received by Euroclear or Clearstream, as applicable, in connection with the redemption of such Global Note (or any portion thereof). The Issuer understands that under existing practices of Euroclear and Clearstream, if fewer than all of the Notes are to be redeemed at any time, Euroclear and Clearstream will credit their respective participants' accounts on a proportionate basis (with adjustments to prevent fractions) or by lot or on such other basis as they deem fair and appropriate; provided, however, that no Book-Entry Interest of less than £100,000 principal amount may be redeemed in part.

Payments on Global Notes

Payments of amounts owing in respect of the Global Notes (including principal, premium, interest, additional interest and Additional Amounts) will be made by the Issuer to the principal paying agent. The principal paying agent will, in turn, make such payments to the order of the common depositary for Euroclear and Clearstream, which will distribute such payments to participants in accordance with their respective procedures.

Under the terms of the Indenture governing the Notes, the Issuer and the Trustee will treat the registered holder of the Global Notes (i.e., Euroclear or Clearstream (or their respective nominees)) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, neither the Issuer nor the Trustee or any of their respective agents has or will have any responsibility or liability for:

- any aspects of the records of (or maintaining, supervising or reviewing the records of) Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a Book-Entry Interest, for any such payments made by Euroclear, Clearstream or any participant or indirect participant, or for maintaining, supervising or reviewing the records of Euroclear, Clearstream or any participant or indirect participant relating to, or payments made on account of, a Book-Entry Interest; or
- any other matter relating to the actions and practices of Euroclear, Clearstream or any participants or indirect participants;

- payments made by Euroclear, Clearstream or any participant or indirect participant, or for maintaining, supervising or reviewing the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a Book-Entry Interest; or
- Euroclear, Clearstream or any participant or indirect participant.

Payments by participants to owners of Book-Entry Interests held through participants are the responsibility of such participants, as is now the case with securities held for the accounts of subscribers registered in "street name."

Currency of Payment for the Global Notes

The principal of, premium, if any, and interest on, and all other amounts payable in respect of, the Global Notes will be paid to the holders of interest in such Notes through Euroclear and/or Clearstream in pound sterling.

Action by Owners of Book-Entry Interests

Euroclear and Clearstream have advised the Issuer that they will take any action permitted to be taken by a holder of Notes only at the direction of one or more participants to whose account the Book-Entry Interests in the Global Notes are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. Euroclear and Clearstream will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Notes. However, if there is an event of default under the Notes, each of Euroclear and Clearstream reserves the right to exchange the Global Notes for Definitive Registered Notes in certificated form, and to distribute such Definitive Registered Notes to their respective participants.

Transfers

Transfers between participants in Euroclear and Clearstream will be effected in accordance with Euroclear and Clearstream rules and will be settled in immediately available funds. If a holder requires physical delivery of Definitive Registered Notes for any reason, including to sell the Notes to persons in states which require physical delivery of such securities or to pledge such securities, such holder must transfer its interest in the Global Notes in accordance with the normal procedures of Euroclear and Clearstream and in accordance with the provisions of the Indenture.

The Global Notes will bear a legend to the effect set forth in "*Notice to Investors.*" Book-Entry Interests in the Global Notes will be subject to the restrictions on transfer discussed in "*Notice to Investors.*"

Transfers of Rule 144A Book-Entry Interests to persons wishing to take delivery of Rule 144A Book-Entry Interests will at all times be subject to such transfer restrictions.

Rule 144A Book-Entry Interests may be transferred to a person who takes delivery in the form of a Regulation S Book-Entry Interest only upon delivery by the transferor of a written certification (in the form provided in the indenture governing the Notes) to the effect that such transfer is being made in accordance with Regulation S or Rule 144A governing the Notes or any other exemption (if available under the U.S. Securities Act).

Through and including the 40th day after the date of initial issuance of the Notes ("40-day Period"), ownership of Regulation S Book Entry Interests will be limited to persons that have accounts with Euroclear or Clearstream or persons who hold interests through Euroclear or Clearstream, and any sale or transfer of such interest to U.S. persons shall not be permitted during such periods unless such resale or transfer is made pursuant to Rule 144A under the U.S. Securities Act. During the 40-day Period, Regulation S Book-Entry Interests may be transferred to a person who takes delivery in the form of a Rule 144A Book-Entry Interest only upon delivery by the transferor of a written certification (in the form provided in the indenture governing the Notes) to the effect that such transfer is being made to a person who the transferor reasonably believes is a "qualified institutional buyer" in a transaction meeting the requirements of Rule 144A or otherwise in accordance with the transfer restrictions described under "Notice *to Investors"* and in accordance with any applicable securities laws

of any other jurisdiction. After the expiration of the 40-day Period, beneficial interests in a Regulation S Global Note may be transferred to a person who takes delivery in the form of a beneficial interest in the Rule 144A Global Note denominated in the same currency without compliance with these certification requirements.

In connection with transfers involving an exchange of a Regulation S Book-Entry Interest for a Rule 144A Book-Entry Interest, appropriate adjustments will be made to reflect a decrease in the principal amount of the Regulation S Global Notes and a corresponding increase in the principal amount of the Rule 144A Global Notes.

Subject to the foregoing, and as set forth in "*Notice to Investors,"* Book-Entry Interests may be transferred and exchanged as described under "*Description of the Notes—Transfer and Exchange.*" Any Book-Entry Interest in one of the Global Notes that is transferred to a person who takes delivery in the form of a Book-Entry Interest in the other Global Note will, upon transfer, cease to be a Book-Entry Interest in the first-mentioned Global Note and become a Book-Entry Interest in the other Global Note, and accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to Book-Entry Interests in such other Global Note for as long as it retains such a Book-Entry Interest.

Definitive Registered Notes may be transferred and exchanged for Book-Entry Interests in a Global Note only as described under "*Description of the Notes—Transfer"* and, if required, only if the transferor first delivers to the Trustee a written certificate (in the form provided in the Indenture) to the effect that such transfer will comply with the appropriate transfer restrictions applicable to such Notes. See "*Notice to Investors.*"

Information Concerning Euroclear and Clearstream

All Book-Entry Interests will be subject to the operations and procedures of Euroclear and Clearstream, as applicable. The Issuer provides the following summaries of those operations and procedures solely for the convenience of investors. The operations and procedures of each settlement system are controlled by that settlement system and may be changed at any time. Neither the Issuer nor the Initial Purchasers are responsible for those operations or procedures and neither the Issuer nor the Initial Purchasers have any duty to update this summary.

Euroclear and Clearstream hold securities for participating organisations. They also facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in the accounts of such participants. Euroclear and Clearstream provide various services to their participants, including the safekeeping, administration, clearance, settlement, lending and borrowing of internationally traded securities. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organisations. Indirect access to Euroclear and Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear and Clearstream participant, either directly or indirectly.

Because Euroclear and Clearstream can only act on behalf of participants, who in turn act on behalf of indirect participants and certain banks, the ability of an owner of a beneficial interest to pledge such interest to persons or entities that do not participate in the Euroclear or Clearstream systems, or otherwise take actions in respect of such interest, may be limited by the lack of a definite certificate for that interest. The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests to such person may be limited. In addition, owners of beneficial interests through the Euroclear or Clearstream systems will receive distributions attributable to the 144A Global Notes only through Euroclear or Clearstream participants.

Global Clearance and Settlement under the Book-Entry System

The Notes represented by the Global Notes are expected to be admitted to trading on the Global Exchange Market, the alternative market of the Exchange, and listed on the Official List of the Exchange. Transfers of interests in the Global Notes between participants in Euroclear and Clearstream Banking will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Although Euroclear and Clearstream currently follow the foregoing procedures in order to facilitate transfers of interests in the Global Notes among participants in Euroclear or Clearstream, as the case may be, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or modified at any time. None of the Issuer, any Guarantor, the Trustee or any agent of the Issuer or the Trustee will have any responsibility for the performance by Euroclear or Clearstream or their respective participants or indirect participants, of their respective obligations under the rules and procedures governing their operations.

Initial Settlement

Initial settlement for the Notes will be made in pound sterling. Book-Entry Interests owned through Euroclear or Clearstream accounts will follow the settlement procedures applicable to conventional bonds in registered form. Book-Entry Interests will be credited to the securities custody accounts of Euroclear and Clearstream holders on the business day following the settlement date against payment for value on the settlement date.

Secondary Market Trading

The Book-Entry Interests will trade through participants of Euroclear or Clearstream and will settle in same-day funds. Since the purchase determines the place of delivery, it is important to establish at the time of trading of any Book-Entry Interests where both the purchaser's and the seller's accounts are located to ensure that settlement can be made on the desired value date.

TAX CONSIDERATIONS

The following is a summary of certain tax consequences of the Offering and is intended as general information only.

U.K. Tax Considerations

The comments below, which are of a general nature and are based on the Issuer's understanding of current U.K. tax law and HMRC practice, describe only the U.K. withholding tax treatment of payments in respect of the Notes. They are not exhaustive. They do not deal with any other U.K. taxation implications of acquiring, holding or disposing of Notes. The comments relate only to the position of persons who are absolute beneficial owners of the Notes. Prospective holders of Notes who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom are strongly advised to consult their own professional advisers. This summary is not intended to be, nor should it be construed to be, legal or tax advice.

Interest on the Notes

The Notes will constitute "quoted Eurobonds" within the meaning of Section 987 of the Income Tax Act 2007 (the "ITA"), provided they are and continue to be "listed on a recognised stock exchange" within the meaning of Section 1005 of the ITA. Securities that have been admitted to the Official List by the Exchange and are admitted to trading on the Global Exchange Market will meet the requirement to be listed on a recognised stock exchange. So long as this remains the case with respect to the Notes, they will therefore constitute quoted Eurobonds.

In other cases, absent any other relief or exemption (such as a direction by H.M. Revenue & Customs that interest may be paid without withholding or deduction for or on account of U.K. tax, or for interest to be paid with U.K. tax deducted at a reduced rate, to a specified holder of the Notes following an application by that holder under an applicable double tax treaty), an amount must generally be withheld on account of U.K. income tax at the basic rate (currently 20%) from payments of interest on the Notes.

Payments by a Guarantor

If a Guarantor makes any payments in respect of interest on the Notes (or other amounts due under the Notes other than payments in respect of principal), it is possible that such payments may be subject to U.K. withholding tax at the basic rate (currently 20%) subject to any relief as may be available under the provisions of any applicable double tax treaty or to any other exemption which may apply. Such payments by a Guarantor may not be eligible for the exemptions from the obligation to withhold tax described above.

Other rules relating to withholding or deductions on account of U.K. income tax

Where Notes are to be, or may fail to be, redeemed at a premium, any such element of premium may constitute a payment of interest. In certain cases, the same could be true for amounts of discount where Notes are issued at a discount. Payments of interest are subject to withholding or deduction on account of U.K. income tax as outlined above.

Where interest has been paid under deduction of U.K. income tax, holders of the Notes who are not resident in the U.K. for tax purposes may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty.

The references to "interest" and "principal" in the statements above mean interest and principal (as applicable) as understood in U.K. tax law. The statements above do not take any account of any different definitions of interest or principal which may prevail under any other law or which may be created by the terms and conditions of the Notes or any related documentation. Holders of the Notes should seek their own professional advice as regards the withholding tax treatment of any payment on the Notes which does not constitute interest or principal as those terms are understood in U.K. tax law.

The above description of the U.K. income tax position assumes that there will be no substitution, merger, consolidation or amalgamation of an Issuer and does not consider the tax consequences of any such substitution, merger, consolidation or amalgamation.

Certain U.S. Federal Income Tax Consequences

The following is a description of certain U.S. federal income tax consequences to the U.S. Holders described below of owning and disposing of Notes, but it does not purport to be a comprehensive description of all tax considerations that may be relevant to your decision to acquire the Notes. This discussion applies only to U.S. Holders that (i) purchase Notes in this Offering at the "issue price," which will be the first price at which a substantial amount of Notes is sold to the public and (ii) hold the Notes as capital assets for U.S. federal income tax purposes.

This discussion does not describe all of the tax consequences that may be relevant to you in light of your particular circumstances, including alternative minimum tax consequences and differing tax consequences applicable to U.S. Holders subject to special rules, such as:

- financial institutions;
- dealers or certain traders in securities;
- persons holding Notes as part of a hedge, "straddle" or integrated transaction;
- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- entities or arrangements classified as partnerships for U.S. federal income tax purposes;
- tax-exempt entities; or
- persons holding Notes in connection with a trade or business conducted outside of the United States.

If you are an entity or arrangement that is classified as a partnership for U.S. federal income tax purposes, the U.S. federal income tax treatment of your partners will generally depend on the status of your partners and your activities. Partnerships considering the purchase of Notes and partners in such partnerships should consult their tax advisers as to the particular U.S. federal income tax consequences of owning and disposing of the Notes.

This discussion is based on the Internal Revenue Code of 1986, as amended (the "Code"), administrative pronouncements, judicial decisions, and Treasury regulations, all as of the date hereof, any of which is subject to change, possibly with retroactive effect. This discussion does not address any aspect of state, local or non-U.S. taxation, any U.S. federal taxes other than income taxes (such as estate or gift taxes), or the potential application of the Medicare contribution tax. If you are considering the purchase of Notes, you should consult your tax adviser with regard to the application of the U.S. federal tax laws to your particular situation, as well as any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

You are a U.S. Holder if, for U.S. federal income tax purposes, you are a beneficial owner of a Note that is:

- an individual who is a citizen or resident of the United States;
- a corporation, created or organised under the laws of the United States, any state therein or the District of Columbia; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

Interest

Stated interest paid on a Note will be taxable to you as ordinary interest income at the time it accrues or is received, in accordance with your method of accounting for U.S. federal income tax purposes. It is expected, and this discussion assumes, that the Notes will be issued without original issue discount for U.S. federal income tax purposes. Interest on the Notes will be foreign-source for purposes of computing your foreign tax credit limitation.

If you use the cash method of accounting, you will be required to include in income the U.S. dollar value of a pound sterling interest payment as determined based on the spot exchange rate on the date the payment is received, regardless of whether the payment is in fact converted into U.S. dollars at that time. You generally will not recognize foreign currency exchange gain or loss with respect to the receipt of such interest payments. If you are an accrual method taxpayer, you will accrue interest

income on the Notes in pound sterling and translate that amount into U.S. dollars at the average spot exchange rate in effect during the interest accrual period (or with respect to an accrual period that spans two taxable years, at the average rate for the partial period within your taxable year). Alternatively, if you are an accrual method taxpayer, you may make an election (which must be applied consistently to all debt instruments from year to year and cannot be changed without the consent of the IRS) to translate accrued interest income at the spot exchange rate on the last day of the accrual period (or the last day of the taxable year in the case of a partial accrual period), or at the spot exchange rate on the date the payment is received, if that date is within five business days from the last day of the accrual period. If you are an accrual method taxpayer, you will recognize foreign currency exchange gain or loss in an amount equal to the difference between the U.S. dollar value of a pound sterling interest payment received in respect of an accrual period (determined based on a spot rate on the date of receipt) and the U.S. dollar value of interest income that has accrued during that period (as determined above), regardless of whether the payment is in fact converted into U.S. dollars at that time. This foreign currency exchange gain or loss will generally be treated as U.S.-source ordinary income or loss.

Sale or Other Taxable Disposition of the Notes

Upon the sale, redemption, retirement or other taxable disposition of a Note, you will recognize taxable gain or loss equal to the difference between the amount realised on the sale, redemption, retirement or taxable disposition and your tax basis in the Note, each as determined in U.S. dollars. For these purposes, the amount realised does not include any amount attributable to accrued interest, which is treated as interest as described under "—*Interest*" above.

Your tax basis in a Note will generally be the U.S. dollar value of the pound sterling purchase price on the date of purchase, calculated at the spot exchange rate in effect on that date and the U.S. dollar value of the amount realised would generally be determined by translating that amount at the spot exchange rate on the date of the sale, redemption, retirement or other taxable disposition. If the Notes are traded on an established securities market, and you are a cash-method taxpayer (or an electing accrual-method taxpayer), you will determine the U.S. dollar value of the purchase price of the Note at the spot exchange rate on the settlement date of the purchase, and you will determine the U.S. dollar value of the amount realised on a sale of a Note by translating that amount at the spot exchange rate on the settlement date of the disposition. An electing accrual-method taxpayer must apply this election consistently to all debt instruments from year to year and cannot change the election without the consent of the IRS.

Subject to the discussion of the foreign currency rules in the next paragraph, gain or loss realised on the sale, redemption, retirement or other taxable disposition of a Note will generally be capital gain or loss and will be long-term capital gain or loss if at the time of the sale, redemption, retirement or taxable disposition you have held the Note for more than one year. Long-term capital gains recognized by non-corporate U.S. Holders are subject to reduced tax rates. The deductibility of capital losses may be subject to limitations.

Upon the sale, redemption, retirement or other taxable disposition of a Note, you will recognize foreign currency exchange gain or loss, which will generally constitute U.S.-source ordinary income or loss, on the principal amount of the Note generally equal to the difference, if any, between (i) the U.S. dollar value of your purchase price for the Note in pound sterling determined at the spot rate on the date principal is received from us or the Note is disposed of and (ii) the U.S. dollar value of your purchase price for the Note in pound sterling determined at the spot rate on the date you acquired the Note. However, you will recognize foreign currency exchange gain or loss only to the extent of the total gain or loss realised on the sale, redemption, retirement or other taxable disposition.

Potential Loss Reporting Requirement

If you recognize a loss upon the sale, redemption, retirement or other taxable disposition of a Note in excess of certain thresholds, you may be required to file a reportable transaction disclosure statement with the IRS. If you recognize a loss with respect to a Note, you should consult your tax advisers regarding this reporting obligation.

Backup Withholding and Information Reporting

Information returns may be required to be filed with the IRS in connection with payments on the Notes and proceeds received from a sale or other disposition of the Notes unless you are an exempt recipient. You may also be subject to backup withholding on these payments in respect of your Notes unless you provide your taxpayer identification number and otherwise comply with applicable requirements of the backup withholding rules or you provide proof of an applicable exemption. Amounts withheld under the backup withholding rules are not additional taxes and may be refunded or credited against your U.S. federal income tax liability, provided the required information is timely furnished to the IRS.

Certain U.S. Holders who are individuals and certain closely-held U.S. entities may be required to report information relating to securities issued by a non-U.S. person or accounts through which such securities are held, subject to certain exceptions (including an exception for securities held in accounts maintained by U.S. financial institutions). You should consult your tax adviser regarding your possible reporting obligation with respect to the Notes.

CERTAIN INSOLVENCY AND ENFORCEABILITY CONSIDERATIONS

The following is a summary of certain insolvency and other legal considerations in England and Wales, where the Issuer and each Guarantor is incorporated, and a summary of certain limitations on the validity and enforceability of the Guarantees. The description is only a summary and does not purport to be complete or to discuss all of the limitations or considerations that may affect the validity or enforceability of the Notes or the Guarantees. In addition, the laws of more than one jurisdiction could potentially apply in respect of certain matters and laws in multiple jurisdictions could result in disputes over which jurisdiction's law should apply, which could adversely affect your rights and your ability to enforce your rights and collect payment in full under the Notes or the Guarantees. Prospective investors in the Notes should consult their own legal advisors with respect to all such limitations and considerations.

European Union

The Issuer and the Guarantors are currently organised under the laws of Member States of the European Union. There is European Union legislation governing where insolvency proceedings in respect of those companies (other than those who have their "centre of main interests", as explained further below, in Denmark) may be opened. As of June 26, 2017, Regulation (EU) 2015/848 of the European Parliament and of the Council of 20 May 2015 on insolvency proceedings (the "New EU Insolvency Regulation") will replace the current Council Regulation (EC) no. 1346/2000 on insolvency proceedings (the "EU Insolvency Regulation") and will apply to insolvency proceedings opened on and from that date. The EU Insolvency Regulation will, however, continue to apply to insolvency proceedings opened prior to June 26, 2017.

Regime Applicable to Insolvency Proceedings Opened before June 26, 2017: the EU Insolvency Regulation

Main insolvency proceedings

Whilst the Issuer and the Guarantors are companies incorporated under the laws of England and Wales and the Issuer's and the Guarantors' registered offices are also located in England and Wales, pursuant to the EU Insolvency Regulation, the court which has jurisdiction to open main insolvency proceedings in relation to a company is the court of the Member State (in this section references to Member States exclude Denmark) in which that company has its "centre of main interests" (as that term is used in Article 3(1) of the EU Insolvency Regulation, "COMI"). The determination of where a company has its COMI is a question of fact on which the courts of the different Member States may have differing and even conflicting views.

There is a rebuttable presumption that a company's COMI is in the place where it registered office is located and so, unless this presumption was rebutted (about which see further below), any main insolvency proceedings in respect of the Issuer or the Guarantors would be commenced in England and conducted in accordance with the requirements of English insolvency law. The forms of insolvency proceedings which can comprise main proceedings are listed in Annex A to the EU Insolvency Regulation and include, in respect of the U.K., administration, compulsory liquidation and creditors' voluntary liquidation with confirmation by the court (see further "*—England and Wales—Administration"* and "*—England and Wales—Liquidation/Winding-Up.*")

It is possible to rebut the presumption that a company's COMI is in the place of its registered office if factors which are both objective and ascertainable by third parties (meaning that they are already in the public domain and what a typical third party would learn as a result of dealing with the company, without making specific enquiries) indicate that the company's COMI is elsewhere (Re *Eurofood IFSC Ltd* ECJ C-341/2004). Factors which may be taken into account include the location of any regulatory authorities and the places where the company's business is managed and operated, board meetings held and the accounts prepared and audited. A company's COMI may change from time to time but it is determined for the purposes of deciding which courts have competent jurisdiction to open solvency proceedings at the time of the filing of the insolvency petition or analogous document commencing the proceedings.

Territorial or secondary insolvency proceedings

Insolvency proceedings opened in one Member State under the EU Insolvency Regulation are to be recognised in other Member States, although secondary proceedings may additionally be opened in any Member State where the company has an "establishment." An establishment is defined as a place of operations where a company carries out non-transitory economic activities with human means and goods (Article 2(h) of the EU Insolvency Regulation). This means a fixed place of business and dealing with third parties (as opposed to purely internal administration). The effect of secondary proceedings is limited to the assets located in that Member State. The forms of insolvency proceedings which can comprise secondary proceedings are listed in Annex B to the EU Insolvency Regulation and include, in respect of the U.K., compulsory liquidation and creditors' voluntary liquidation with confirmation by the court but not administration.

Where main proceedings in the Member State in which the company has its COMI have not yet been opened, territorial insolvency proceedings can only be opened in another Member State where the company has an establishment where either (a) insolvency proceedings cannot be opened in the Member State in which the company's COMI is situated under that Member State's law; or (b) the territorial insolvency proceedings are opened at the request of a creditor who is domiciled, habitually resident or has its registered office in the other Member State or whose claim arises from the operation of the establishment.

The courts of all Member States (other than Denmark) must recognize the judgment of the court opening main proceedings, which will be given the same effect in the other Member States, so long as no territorial or secondary proceedings have been opened there. The insolvency officeholder appointed by a court in a Member State that has jurisdiction to open main proceedings (because the company's COMI is there) may exercise the powers conferred on him by the law of that Member State in another Member State (such as to remove assets of the company from that other Member State), subject to certain limitations, so long as no insolvency proceedings have been opened in that other Member State or any preservation measure taken to the contrary further to a request to open insolvency proceedings in that other Member State where the company has assets.

The EU Insolvency Regulation contains provisions dealing with the co-ordination of main and secondary proceedings.

Regime Applicable to Insolvency Proceedings Opened after June 26, 2017: the New EU Insolvency Regulation

Main Insolvency proceedings

Pursuant to Article 3(1) of the New EU Insolvency Regulation, in the case of a company or legal person, the COMI is presumed to be located in the country of the registered office in the absence of proof to the contrary. That presumption shall only apply if the registered office has not been moved to another Member State within the three-month period prior to the request for the opening of insolvency proceedings. Pursuant to Preamble 30 of the New EU Insolvency Regulation, the presumption of the COMI being at the place of the registered office should be rebuttable if the company's central administration is located in a Member State other than the one where it has its registered office, and where a comprehensive assessment of all the relevant factors establishes, in a manner that is ascertainable by third parties, that the company's actual centre of management and supervision and the centre of the management of its interests is located in that other Member State. In this regard, special consideration should be given to creditors and their perception as to where a debtor conducts the administration of its interests. In the event of a shift in the COMI, this may require informing the creditors of the new location from which the debtor is carrying out its activities in due course (e.*g.,* by drawing attention to the change of address in commercial correspondence or otherwise making the new location public through other appropriate means). Another change under the New EU Insolvency Regulation focuses on the definition of establishment" as a prerequisite to open "territorial proceedings" (secondary proceedings). From June 26, 2017 onwards, "establishment" will mean any place of operations where a debtor carries out or has carried out in the three-month period prior to the request to open main insolvency proceedings a non-transitory economic activity with human means and assets.

The New EU Insolvency Regulation applies to insolvency proceedings that are insolvency proceedings of the types referred to in Annex A to the New EU Insolvency Regulation.

Pursuant to Article 4 of the New EU Insolvency Regulation, a court requested to open insolvency proceedings will be required to examine whether it has jurisdiction pursuant to Article 3; such decision may be challenged by the debtor or any creditor on grounds of international jurisdiction.

Insolvency proceedings involving members of a group of companies

The New EU Insolvency Regulation provides for a cooperation and communication mechanism in the event that insolvency proceedings concerning two or more members of a group of companies are opened. Insolvency officeholders appointed in proceedings concerning a member of the group shall cooperate with any insolvency officeholder appointed in proceedings concerning another member of the group to the extent that such cooperation is appropriate to facilitate the effective administration of those proceedings, is not incompatible with the rules applicable to such proceedings and does not entail any conflict of interest. Similarly, the court which has opened proceedings shall also cooperate with any other court before which a request is made to open proceedings concerning another member of the group to the extent that cooperation is appropriate to facilitate the effective administration of the proceedings, is not incompatible with the rules applicable to them and does not entail any conflict of interest. In this respect, the courts may, where appropriate, appoint a third party to act on their instructions, provided that this is not incompatible with the rules applicable to them.

Applicability of the EU Insolvency Regulation and the New EU Insolvency Regulation outside of the European Union

The EU Insolvency Regulation and the New EU Insolvency Regulation do not affect the jurisdiction of courts outside the European Union (or the court of Denmark) to open insolvency proceedings in respect of the Issuer or a Guarantor incorporated in a Member State of the European Union in accordance with their local insolvency laws. Accordingly, in the event that the Issuer or any Guarantor experiences financial difficulty, it is not possible to predict with certainty in which jurisdiction or jurisdictions insolvency or similar proceedings will be commenced, or the outcome of such proceedings. Applicable insolvency laws may affect the enforceability of the obligations of the Issuer and the Guarantors. The insolvency, administration and other laws of the jurisdictions in which the respective companies are organised or operate may be materially different from, or conflict with, each other and there is no assurance as to how the insolvency laws of the potentially involved jurisdictions will be applied in relation to one another.

England and Wales

The Issuer and the Guarantors are companies incorporated under the laws of England and Wales. Therefore, any main insolvency proceedings with respect to the Issuer or a Guarantor would likely be commenced in England.

However, pursuant to the EU Insolvency Regulation, where an English company conducts business in another Member State, the jurisdiction of the English courts may be limited if the company's COMI is found to be in another Member State (see "*—European Union")*. There are a number of factors that are taken into account to ascertain the COMI. The COMI should correspond to the place where the company conducts the administration of its interests on a regular basis and is therefore ascertainable by third-parties. The place of the registered office of the company is presumed to be the COMI in the absence of proof to the contrary. The point at which this issue falls to be determined is at the time of the filing of the insolvency petition. Similarly, the U.K. Cross-Border Insolvency Regulations 2006, which implement the UNCITRAL Model Law on Cross-Border Insolvency in the U.K., provide that a foreign (i.e., non-European) court may have jurisdiction where any English company has its COMI in such foreign jurisdiction or where it has an "establishment" (being a place of operations in such foreign jurisdiction, where it carries out non-transitory economic activities with human means and assets or services) in such foreign jurisdiction.

English insolvency law is different to the laws of the United States and other jurisdictions with which investors may be familiar. In the event that the Issuer or Guarantors experience financial difficulty, it is not possible to predict with certainty the outcome of insolvency or similar proceedings.

Formal insolvency proceedings under the laws of England and Wales may be initiated in a number of ways, as follows.

Administration

Administration is an insolvency procedure under the Insolvency Act 1986 (the "IA86"), pursuant to which a company may be reorganized or its assets realised under the protection of a statutory moratorium.

There are two distinct methods for placing a company into administration: (i) an application to court followed by a court order for administration (the "in-court route"); or (ii) the filing of certain prescribed forms with the court following which the administration takes effect (the "out-of-court route"). The in-court route is commenced by an application to court by the company itself, its directors, one or more of its creditors including contingent or prospective creditors, the U.K. Financial Conduct Authority or the Prudential Regulation Authority or certain other designated persons. The out-of-court method of appointment is available only to the directors, the company itself and the holder of a qualifying floating charge ("QFC") (see further below for the meaning of this term) and different procedures apply according to the identity of the appointor.

A QFC is defined in paragraph 14 of Schedule B1 to the IA86 as being a floating charge created by an instrument which: (i) states on its face that paragraph 14 applies to it; (ii) purports to empower the holder of the floating charge to appoint an administrator of the company; or (iii) purports to empower the holder to appoint an administrative receiver within the meaning given by section 29(2) of the IA86. A person is the holder of a QFC if he holds one or more debentures of the company secured by charges and other forms of security, which together relate to the whole or substantially the whole of the company's property and at least one of which is a qualifying floating charge.

When any person other than a holder of a QFC makes an administration appointment (whether by the in-court or out-of-court route), it will be necessary to show that the company is, or is likely to become, unable to pay its debts (see "*—The Insolvency test")*. Regardless of how an administrator is appointed, he will need to consent to act as administrator and to state that, in his opinion, one of the following statutory objectives can be satisfied (the second objective can only be considered if the first objective cannot be satisfied and similarly for the third objective): (i) to rescue the company as a going concern; (ii) to achieve a better result for creditors as a whole than would be likely if the company were wound up without first being in administration; or (iii) to realise property to make a distribution to one or more secured or preferential creditors (see "*—Statutory order of priorities")*.

An interim moratorium takes effect when an application to appoint an administrator is made or a notice of intention to appoint an administrator is filed at court. Regardless of how the administration procedure is commenced, this becomes final once the company is in administration. The moratorium means, among other things, that during the administration process no other legal process (including legal proceedings, execution, distress or diligence) may be commenced or continued against the company and no step can be taken to enforce security over the company's property (in each case except with the consent of the administrator or the permission of the court), no administrative receiver can be appointed and any receiver of part of the company's property will be required to resign if requested to do so by the administrator and, except in certain limited circumstances, no resolution can be passed or order be made for the winding-up of the company. This moratorium does not apply to financial collateral that has been created under a financial collateral arrangement within the meaning of the Financial Collateral Arrangements (No. 2) Regulations 2003 (SI 2003/3226) (as amended) (the "Financial Collateral Regulations") (generally, such arrangements are in respect of cash or financial instruments, such as shares, bonds or tradable capital market debt instruments).

An administrator owes his duties to the creditors of the company as a whole. Upon appointment, he takes control of the day-to-day running of the company and takes custody or control of all property, to which he thinks the company is entitled. He has broad powers to deal with the company and its assets, except in respect of assets which are subject to fixed charge security. The permission of the court is required to dispose of any such fixed charge assets and the proceeds of sale must be paid to the fixed charge holder. An administrator's powers further extend to investigating why the company failed and, where appropriate, bringing actions against the directors or former directors or seeking to set aside certain transactions (see "*—Antecedent Transaction Laws"* in respect of the latter).

An administration does not itself terminate any contracts and, unlike a liquidator, an administrator does not have the power to disclaim or terminate contracts (although he can choose to breach a contract if he considers it to be in the best interests of the creditors as a whole, in which case the

resulting damages will rank as an unsecured debt, see "—*Statutory order of priorities")*. Conversely, contractual terms providing for automatic termination or a right of termination by the counterparty upon the occurrence of an insolvency event (such as administration) will generally be enforceable as they are not considered to be against public policy as a matter of English law. However, there are exceptions to this general approach, most notably in the context of contractual supplies of services considered essential for the conduct of the administration. As of October 1, 2015, counterparties may not terminate these contracts (or the supplies they govern) simply because the company enters administration, except with the consent of the administrator or the permission of the court.

Administrative receivership

A secured creditor may, in limited circumstances, be able to prevent the appointment of administrators by itself appointing an administrative receiver prior to the appointment of any administrator. In order to empower a person to appoint an administrative receiver to the company, the floating charge granted by the company to that person must constitute either: (i) a floating charge over the whole (or substantially the whole) of the property of the company created before 15 September 2003; or (ii) a QFC and the QFC must fall within one of the exceptions in the IA86 to the prohibition on the appointment of administrative receivers. The most relevant exception to the prohibition on the appointment of an administrative receiver under the IA 86 is the exception relating to "capital market arrangements" (as defined in the IA86), which will apply if the issue of the Notes creates a debt of at least £50,000,000 for the relevant company during the life of the arrangement and the arrangement involves the issue of a "capital markets investment" (as defined in the IA86 but is generally a rated, listed or traded debt instrument). If an administrative receiver has been appointed, an administrator can only be appointed by the court (and not by the company, its directors or the holder of a qualifying charge using the out of court procedure), and then only if the person who appointed the administrative receiver consents or the court considers that the security pursuant to which the administrative receiver was appointed is invalid.

Liquidation/Winding-Up

Liquidation is a terminal insolvency process pursuant to which the assets of a company are realised by the liquidator and the proceeds distributed to creditors in accordance with a statutory order of priority (see "—*Statutory order of priorities"),* with any surplus paid to the shareholders. Once the liquidator has completed this task, the company will be dissolved and removed from the register of companies.

There are two different types of liquidation: (i) compulsory; and (ii) voluntary, which is in turn divided into members' voluntary liquidation ("MVL") and creditors' voluntary liquidation ("CVL").

Regardless of how he is appointed, a liquidator owes his duties to the company and its creditors as a whole and has wide powers to do whatever necessary for the conduct of the liquidation. This includes the power to: (i) agree, compromise and pay creditor claims; (ii) sell any of the company's property; (iii) bring or defend any legal proceedings on behalf of the company; (iv) disclaim onerous property or contracts in accordance with section 178 of the IA86; (v) bring actions against the directors or former directors; and (vi) bring actions to set aside certain transactions (see "—*Antecedent Transaction Laws"* in respect of the latter).

In a compulsory liquidation, there is an automatic stay on proceedings being commenced or continued against the company or its property except with the permission of the court. In a voluntary liquidation, there is no such automatic stay although the court may, upon the application of the liquidator or any creditor, order a stay under its general discretionary power in section 112 of the IA86.

Compulsory liquidation

Compulsory liquidation is a court-based procedure pursuant to which a creditor (among others) petitions for the winding up of a company and the court makes a winding up order. The grounds which entitle the court to make a winding up order are set out in section 122 of the IA86. The most common grounds are that: (i) the company is unable to pay its debts (see "—*The Insolvency Test"* for the meaning of this term); and (ii) it is just and equitable for the company to be wound up.

Under section 127 of the IA86, any disposition of the company's property, any transfer of the company's shares and any altering of the status of company members is void if made following the "commencement of a winding up", unless the court orders otherwise. If a winding up order is made, it is deemed to have commenced on the date on which the winding up petition was presented. This gives section 127 retrospective effect, meaning that the company cannot enter into any of the specified transactions during the period between the presentation of a winding up petition and the making of a winding up order without first seeking a validation order from the court.

Members' voluntary liquidation

An MVL is a solvent liquidation that is controlled by the shareholders. It commences when the shareholders pass a special resolution to place the company into liquidation and there is no involvement by the court.

Not more than five weeks prior to the making of the winding up resolution, the directors must swear a statutory declaration of solvency stating that, after making full enquiry into the company's affairs, they have formed the opinion that it will be able to pay its debts, including interest and the costs of the MVL process, within a stated period not exceeding 12 months from the start of the liquidation.

Creditors' voluntary liquidation

A creditors' voluntary liquidation is also commenced by the shareholders resolving to place the company into liquidation and has no court involvement. In contrast to an MVL, however, the directors do not swear a statutory declaration of solvency for a CVL (meaning the company can be solvent or insolvent) and, after the shareholders' meeting, a creditors' meeting must also resolve to place the company into liquidation. If the creditors choose a different person to act as liquidator from the shareholders, the creditors' choice will prevail.

The Insolvency Test

Under the IA86, a company is insolvent if it is unable to pay its debts. A company is deemed unable to pay its debts if it is insolvent on a "cash flow" basis (unable to pay its debts as they fall due) which text can be demonstrated, for example, where a company fails to satisfy a creditor's statutory demand for a debt exceeding £750 or if it fails to satisfy in full a judgment debt (or similar court order), or if it is insolvent on a "balance sheet" basis (the value of the company's assets is less than the amount of its liabilities, taking into account its contingent and prospective liabilities).

Statutory order of priorities

One of the primary functions of liquidation (and, where the company cannot be rescued as a going concern, one of the possible functions of administration) under English law is to realise the assets of the insolvent company and to distribute the realisations made from those assets to its creditors. Under the IA86, creditors are placed into different classes and, with the exceptions and adjustments noted below, the proceeds from the realisation of the insolvent company's property applied in descending order of priority, as set out below. With the exception of the Prescribed Part (as defined below), distributions cannot be made to a class of creditors until the claims of the creditors in a prior ranking class have been paid in full. Unless creditors have agreed otherwise, distributions are made on a *pari passu* basis, that is, the assets are distributed in proportion to the debts due to each creditor within a class.

The general priority of claims on insolvency is as follows (in descending order of priority):

- First ranking claims: holders of fixed charge security and creditors with a proprietary interest in specific assets in the possession (but not full legal and beneficial ownership) of the debtor but only to the extent of the realisations from those secured assets or with respect to the asset in which they have a proprietary interest;
- Second ranking claims: expenses of the insolvent estate incurred during the relevant insolvency proceedings (there is a further statutory order of priority setting out the order in which expenses are paid);

- Third ranking claims: These are divided into ordinary preferential creditors and secondary preferential creditors with ordinary preferential creditors being paid in priority to secondary preferential creditors. Preferential debts include (but are not limited to) debts owed by the insolvent company in relation to: (i) contributions to occupational and state pension schemes; (ii) wages and salaries of employees for work done in the four months before the insolvency date, up to a maximum of £800 per person; and (iii) holiday pay due to any employee whose contract has been terminated, whether the termination takes place before or after the insolvency date;
- Fourth ranking claims: holders of floating charge security to the extent of the realisations from those secured assets, according to the priority of their security. This would include any floating charge that was stated to be a fixed charge in the document that created it but which, on a proper interpretation, was rendered a floating charge. However, before distributing asset realisations to the holders of floating charges, the Prescribed Part (as defined below) must be set aside for distribution to unsecured creditors;
- Fifth ranking claims: general unsecured creditors. However, any secured creditor not repaid in full from the realisation of assets subject to its security can also claim the remaining debt due to it (a shortfall) from the insolvent estate as an unsecured claim; and
- Sixth ranking claims: shareholders. If, after the repayment of all unsecured creditors in full, any remaining funds exist, these will be distributed to the shareholders of the insolvent company.

Subordinated creditors will be ranked according to the terms of the subordination (provided that such terms do not contravene the IA86).

Prescribed Part

An administrator, receiver (including administrative receiver) or liquidator of an English company will be required to ring-fence a certain percentage of the proceeds of enforcement of assets subject to floating charge security for the benefit of unsecured creditors (the "Prescribed Part"). Under current law, this applies to 50% of the first £10,000 of net floating charge realisations and 20% of the remainder over £10,000, and the Prescribed Part is subject to a maximum aggregate cap of £600,000. The Prescribed Part must be made available to unsecured creditors unless the cost of doing so would be disproportionate to the resulting benefit to creditors. The Prescribed Part will not be available for any shortfall claims of secured creditors unless the Prescribed Part is sufficient to pay out all unsecured creditors' claims in full.

Foreign Currency

Under English insolvency law, where creditors are asked to submit formal proofs of claims for their debts, any debt of a company payable in a currency other than sterling must be converted into sterling at the "official exchange rate" (which is defined from time to time in the subordinate legislation of the IA86) prevailing at the date when the company went into liquidation or administration. This provision overrides any agreement between the parties. Accordingly, in the event that a company goes into liquidation or administration, holders of the Notes may be subject to exchange rate risk between the date that such company went into liquidation or administration and receipt of any amounts to which such holders of the Notes may become entitled (by way of a distribution in the liquidation or administration).

Schemes of arrangement

Pursuant to Part 26 of the Companies Act 2006 the English courts have jurisdiction to sanction a compromise or arrangement between a company and its creditors (or classes of creditors) where such company (i) is liable to be wound-up under the IA86 and (ii) has "sufficient connection" to the English jurisdiction.

Before the court considers the sanction of a scheme of arrangement, affected creditors will vote on the proposed compromise or arrangement in a single class or in a number of classes, depending on the rights of such creditors that will be affected by the proposed scheme and any new rights that such

creditors are given under the scheme. Such compromise can be proposed by the company or its creditors. If a majority in number representing at least 75% in value of those creditors present and voting at the creditor meeting(s) vote in favour of the proposed compromise, irrespective of the terms and approval thresholds contained in the finance documents, that compromise will be binding on all affected creditors, including those affected creditors who did not participate in the vote on the scheme of arrangement and those who voted against the scheme of arrangement. The scheme then needs to be sanctioned by the court at a sanction hearing where the court will review the fairness of the scheme and consider whether it is reasonable. The court has the discretion as to whether to sanction the scheme as approved, make an order conditional upon modifications being made to the scheme, or reject the scheme.

Antecedent Transaction Laws

There are five principal provisions of the IA86 under which transactions entered into prior to a company's insolvency can be challenged. They are: (i) transactions at an undervalue (section 238); (ii) preferences (section 239); (iii) avoidance of certain floating charges (section 245); (iv) transactions defrauding creditors (section 423); and (v) extortionate credit transactions (section 244).

These provisions all apply where the company has gone into liquidation or administration, with the exception of section 423 which applies even if the company is not in insolvency proceedings.

Transactions at an undervalue

Under English insolvency law, a liquidator or administrator of a company could apply to the court for an order to set aside the creation of a security interest (in certain cases) or a guarantee granted by the company (or give other relief) if such liquidator or administrator believes that the creation of such security interest or guarantee constituted a transaction at an undervalue.

A transaction will constitute a transaction at an undervalue if: (i) the transaction is at an undervalue (a gift or a transaction on terms that provide for the company to receive no consideration or a transaction for a consideration the value of which (in money or money's worth) is significantly less than the value (in money or money's worth) of the consideration provided by the company); (ii) the transaction took place within the relevant time (2 years before the onset of insolvency, being broadly the commencement of its liquidation or administration); and (iii) the company was at the time of the transaction, or became, as a result of the transaction, unable to pay its debts (as defined in the IA86).

A court generally will not intervene if it is satisfied that the company entered into the transaction in good faith and for the purpose of carrying on its business and that, at the time it did so, there were reasonable grounds for believing the transaction would benefit it. Subject to this, if the court determines that the transaction was a transaction at an undervalue, the court can make such order as it thinks fit to restore the position to what it would have been if the transaction had not been entered into (which could include reducing payments under the guarantees or setting aside any security interests or guarantees granted). In any proceedings, it is for the administrator or liquidator to demonstrate that the company was unable to pay its debts unless a beneficiary of the transaction was a "connected person" (as defined in the IA86), in which case there is a presumption that the company was unable to pay its debts and the connected person must demonstrate the company was not unable to pay its debts at the time of the transaction, in such proceedings. An order by the court for a transaction at an undervalue may affect the property of, or impose any obligation on, any person whether or not he is the person with whom the company entered into the transaction, but such an order will not prejudice any interest in property which was acquired from a person other than the company in good faith and for value, or prejudice any interest deriving from such an interest, and will not require a person who received a benefit from the transaction in good faith and for value to pay a sum to the liquidator or administrator of the company, except where that person was a party to the transaction.

Preferences

Under English insolvency law, a liquidator or administrator of a company could apply to the court for an order to set aside the creation of a security interest or a guarantee granted by such company (or give other relief) if such liquidator or administrator believes that the creation of such security interest or such guarantee constituted a preference.

A company gives a preference to a person if: (i) that person is one of the company's creditors, a surety or a guarantor for any of the company's debts or other liabilities; (ii) the company has done something (such as the granting of a security interest or guarantee), or has suffered something to be done which (in either case) has had the effect of putting that person into a position which, in the event that the company goes into insolvent liquidation, will be better than the position he would have been in if that thing had not been done; (iii) the company was influenced in deciding to give the preference by a desire to put the creditor in a better position than he would have been in if the thing had not been done or suffered to be done (this desire is rebuttably presumed in the case of connected persons); (iv) the preference was given within the relevant time (6 months before the onset of the insolvency or 2 years from the onset of insolvency where the transaction is with a connected person); and (v) the company was at the time of the transaction, or became as a result of the transaction, unable to pay its debts (as defined in the IA86).

Subject to this, if the court determines that a transaction was a preference, the court can make such order as it thinks fit to restore the position to what it would have been if that preference had not been given (which could include the releasing of a security interest or guarantee granted by the company under such transaction). An order by the court for a preference may affect the property of, or impose any obligation on, any person whether or not he is the person to whom the preference was given, but such an order will not prejudice any interest in property which was acquired from a person other than the company in good faith and for value, or prejudice any interest deriving from such an interest, and will not require a person who received a benefit from the preference in good faith and for value to pay a sum to the liquidator or administrator of the company, except where the payment is to be in respect of a preference given to that person at a time when he was a creditor of the company.

The desire to prefer requires a "positive wish to improve the creditor's position in the event of the company's insolvent liquidation" (Re Fairway Magazines Ltd 1993 BCLC 643. A preferential effect for a creditor may be foreseen by the company without being desired. Where a company is influenced by "proper commercial considerations" there will be no desire to prefer and therefore no voidable preference (MC Bacon 1990 BCLC 324).

Voidable floating charges

Under English insolvency law, a floating charge created by a company over its property may be invalid if it was created in the relevant time. Where the transaction is with a connected person, this means within a period of 2 years before the onset of insolvency. In all other cases, this means within a period of 12 months before the onset on insolvency when the company was at the time of the transaction, or became as a result of the transaction, unable to pay its debts (as defined in the IA86).

This is the only requirement for setting aside the floating charge and, if met, the security is automatically invalid except to the extent of the aggregate of the value of so much of the consideration for the creation of the charge (as consists of money paid, goods or services supplied or debts discharged and interest thereon) supplied to the company at the time of, or after the creation of, the charge. No court action is required.

Section 245 of the IA86 does not apply to a floating charge that has been created under a financial collateral arrangement within the meaning of the Financial Collateral Regulations.

Transactions defrauding creditors

Under English insolvency law, where it can be shown that a transaction was at an undervalue (as outlined above) and was made for the purposes of putting assets beyond the reach of a person who is making, or may make, a claim against a company, or of otherwise prejudicing the interests of a person in relation to the claim which that person is making or may make, the transaction may be set aside by the court as a transaction defrauding creditors. This provision may be used by any person who claims to be a "victim" of the transaction and is not therefore limited to liquidators or administrators. There is no time limit in the English insolvency legislation within which the company must enter insolvency proceedings and the relevant company does not need to have been unable to pay its debts at the time of the transaction (although general statutory limitation periods will apply). If the court determines that the transaction was a transaction defrauding creditors, the court can make such orders as it thinks fit to restore the position to what it would have been if the transaction had not been entered into and to

protect the interests of the victims of the transaction (including reducing payments under the guarantees or setting aside the security interests or guarantees) but there is protection for a third party acting in good faith and for value without notice of the relevant circumstances. The relevant court order may affect the property of, or impose any obligation on, any person, whether or not he is the person with whom the transaction was entered into. However, such an order will not prejudice any interest in property which was acquired from a third party in good faith, for value and without notice of the relevant circumstances, or prejudice any interest deriving from such an interest, and will not require a person who received a benefit from the transaction in good faith, for value and without notice of the relevant circumstances, to pay any sum unless such person was a party to the transaction.

Extortionate credit transactions

If a company goes into administration or liquidation and it has entered into an extortionate credit transaction, the court may, on the application of the insolvency officeholder, set the transaction aside.

A transaction is extortionate if, having regard to the risk accepted by the person providing the credit, either: (i) its terms require (or required) grossly exorbitant payments to be made (whether unconditionally or in certain contingencies) in respect of the provision of the credit; or (ii) it otherwise grossly contravenes (or contravened) ordinary principles of fair dealing.

The court can make an order in relation to extortionate credit transactions entered into by the company up to three years before the day on which the company entered into administration or went into liquidation.

Additional considerations

Post-petition interest

Any interest accruing under or in respect of amounts due under the Notes or any Guarantee to which an English company is a party in respect of any period after the commencement of administration or liquidation proceedings would only be recoverable by the holders of the Notes from any surplus remaining after payment of all other debts proved in the English company's insolvency proceedings and accrued and unpaid interest up to the date of the commencement of those proceedings provided that such interest may, if there are sufficient realisations from the secured assets, be discharged out of such security recoveries.

Dispositions in winding-up

Under section 127 of the IA86, any disposition of a company's property made after a winding-up has commenced is, unless the court orders otherwise, void. The compulsory winding-up of a company by the court is deemed to start when a winding-up petition is presented by a creditor against the company, rather than the date on which the court makes the winding-up order (if any). However, this will not apply to any property or security interest subject to a disposition or otherwise arising under a financial collateral arrangement under the Financial Collateral Regulations and will not prevent a close-out netting provision taking effect in accordance with its terms.

PLAN OF DISTRIBUTION

Barclays, HSBC, Goldman Sachs International, The Royal Bank of Scotland plc (trading as NatWest Markets) and Rabobank are the Initial Purchasers. Subject to the terms and conditions set forth in the purchase agreement dated the date of this Offering Memorandum among the Issuer and the Initial Purchasers (the "Purchase Agreement"), the Issuer has agreed to sell to the Initial Purchasers, and each of the Initial Purchasers has agreed, severally and not jointly, to purchase the Notes from the Issuer the principal amount of Notes set forth in the Purchase Agreement.

Subject to the terms and conditions set forth in the Purchase Agreement, the Initial Purchasers have agreed, severally and not jointly, to purchase all of the Notes sold under the Purchase Agreement if any of the Notes are purchased. If an Initial Purchaser defaults, the Purchase Agreement provides that the purchase commitments of the non-defaulting Initial Purchasers may be increased or the Purchase Agreement may be terminated.

The Issuer has agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the Initial Purchasers may be required to make in respect of those liabilities.

The Initial Purchasers are offering the Notes, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the Notes, and other conditions contained in the Purchase Agreement, such as the receipt by the Initial Purchasers of officer's certificates and legal opinions. The Initial Purchasers reserve the right to withdraw, cancel or modify offers to investors and to reject orders in whole or in part.

The Initial Purchasers propose initially to offer the Notes at the offering price set forth on the cover page of this Offering Memorandum. After the initial offering of the Notes, the offering price and other selling terms of the Notes may from time to time be varied by the Initial Purchasers without notice. Sales in the United States will be made through certain affiliates of the Initial Purchasers.

United States

Each purchaser of Notes offered by this Offering Memorandum, in making its purchase, will be deemed to have made the acknowledgements, representations and agreements as described under "*Notice to Investors".*

The Notes have not been and will not be registered under the U.S. Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except to qualified institutional buyers in reliance on Rule 144A under the U.S. Securities Act and to non-U.S. persons in offshore transactions in reliance on Regulation S under the U.S. Securities Act. Any offer or sale of Notes in the United States in reliance on Rule 144A will be made by broker-dealers who are registered as such under the U.S. Exchange Act. Terms used above have the meanings given to them by Rule 144A and Regulation S under the U.S. Securities Act. For a description of certain further restrictions on resale or transfer of the Notes, see "Notice *to Investors".*

The Notes may not be offered to the public within any jurisdiction. By accepting delivery of this Offering Memorandum, you agree not to offer, sell, resell, transfer or deliver, directly or indirectly, any Note to the public.

In connection with sales outside the United States (other than sales pursuant to Rule 144A), the Initial Purchasers have agreed that they will not offer, sell or deliver the Notes to, or for the account or benefit of, U.S. persons (i) as part of the Initial Purchasers' distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the Offering or the date the Notes are originally issued. The Initial Purchasers will send to each dealer to whom they sell such Notes during such 40-day period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, with respect to Notes initially sold pursuant to Regulation S under the U.S. Securities Act, until 40 days after the later of the commencement of this offering or the date the Notes are originally issued, an offer or sale of such Notes within the United States by a dealer that is not participating in the Offering may violate the registration requirements of the U.S. Securities Act.

New Issue of Securities

The Notes are a new issue of securities with no established trading market. The Issuer does not intend to apply for listing of the Notes on any U.S. securities exchange or for inclusion of the Notes on any automated dealer quotation system.

The Issuer has applied, through its listing agent, to list the Notes on the Official List of the Exchange and trade the Notes on the Global Exchange Market, however, the Issuer cannot assure you that the Notes will be approved for listing or that such listing will be maintained. The Issuer cannot assure you that the prices at which the Notes will sell in the market after this Offering will not be lower than the initial offering price or that an active trading market for the Notes will continue after this Offering. The Initial Purchasers have advised us that they currently intend to make a market in the Notes. However, they are not obligated to do so, and they may discontinue any market-making activities with respect to the Notes at any time without notice. In addition, market- making activity will be subject to the limits imposed by the Exchange Act (defined below), and may be limited. Accordingly, the Issuer cannot assure you that you will be able to sell your Notes at a particular time or that the prices that you receive when you sell will be favourable.

No Sales of Similar Securities

The Issuer and the Guarantors have agreed that they will not during the period from the date of this Offering Memorandum and including the date that is 90 days after such date, without first obtaining the prior written consent of the Initial Purchasers, offer, sell, contract to sell or otherwise dispose of, any debt securities issued or guaranteed by the Issuer or any of the Guarantors and having a tenor more than one year.

Price Stabilisation and Short Positions

In connection with the Offering, the Initial Purchasers (or persons acting on their behalf) may engage in transactions that stabilise the market price of the Notes. Such transactions consist of bids or purchases to peg, fix or maintain the price of the Notes. Purchases of a security to stabilise the price or to reduce a short position may cause the price of the security to be higher than it might be in the absence of such purchases.

In connection with the Offering, the Initial Purchasers may purchase and sell the Notes in the open market. These transactions may include short sales and purchases on the open market to cover positions created by short sales. Short sales involve the sale by the Initial Purchasers of a greater principal amount of Notes than they are required to purchase in the Offering. The Initial Purchasers must close out any short position by purchasing the Notes in the open market. A short position is more likely to be created if the Initial Purchasers are concerned that there may be downward pressure on the price of the Notes in the open market after pricing that could adversely affect investors who purchase in the Offering.

Similar to other purchase transactions, the Initial Purchasers' purchases to cover the syndicate short sales may have the effect of raising or maintaining the market price of the Notes or preventing or retarding a decline in the market price of the Notes. As a result, the price of the Notes may be higher than the price that might otherwise exist in the open market.

None of the Issuer, the Guarantors, nor any of the Initial Purchasers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, none of the Issuer, the Guarantors, nor any of the Initial Purchasers make any representation that the representatives will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Any stabilising action, if commenced, must end no later than the earlier of 30 days after the Issue Date and 60 days after the date of the allotment of the Notes.

Other Relationships

The Initial Purchasers or their respective affiliates have engaged in, and/or may in the future engage in, investment banking, financial advisory, commercial banking and/or other commercial dealings in the ordinary course of business with the Issuer or its affiliates. In addition, in the ordinary

course of their business activities, the Initial Purchasers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or the Issuer's affiliates (including the Notes). Certain of the Initial Purchasers or their affiliates that have a lending relationship with the Issuer or its subsidiaries may routinely hedge their credit exposure to these entities consistent with their customary risk management policies. Typically, such Initial Purchaser and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities (including potentially the Notes). Any such short positions could adversely affect future trading prices of Notes. The Initial Purchasers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments. Certain of the Initial Purchasers or certain of their affiliates have been appointed as arrangers, agents, security agent or lenders under the Revolving Credit Facility and therefore will be repaid with a portion of the proceeds of the offering of the Notes. In addition certain of the Initial Purchasers or certain of their affiliates will also be arrangers, agents, security agents and lenders under the Amended and Restated Senior Credit Facility.

NOTICE TO INVESTORS

You are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of any of the Notes offered hereby.

The Notes and the Guarantees have not been and will not be registered under the Securities Act, or the securities laws of any other jurisdiction, and, unless so registered, may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or the securities laws of any other jurisdiction. Accordingly, the Notes offered hereby are being offered and sold only to qualified institutional buyers (as defined in Rule 144A under the Securities Act) in reliance on Rule 144A under the Securities Act and in offshore transactions in reliance on Regulation S under the Securities Act.

We have not registered and will not register the Notes or the Guarantees under the Securities Act and, therefore, the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Issuer is offering and selling the Notes to the Initial Purchasers for re-offer and resale only:

- in the United States to "qualified institutional buyers," commonly referred to as "QIBs," as defined in Rule 144A in compliance with Rule 144A; and
- to investors who are not U.S. persons, as such term is defined in Rule 902, outside the United States in accordance with Regulation S.

The terms "offshore transaction", "U.S. person" and "United States" are used with the meanings given to them in Regulation S.

By your acceptance thereof, you will be deemed to have acknowledged, represented to and agreed with the Issuer and the Initial Purchasers as follows:

1. You understand and acknowledge that the Notes and the Guarantees have not been registered under the Securities Act or any other applicable securities laws and that the Notes are being offered for resale in transactions not requiring registration under the Securities Act or any other securities laws, including sales pursuant to Rule 144A under the Securities Act, and, unless so registered, may not be offered, sold or otherwise transferred except in compliance with the registration requirements of the Securities Act or any other applicable securities laws, pursuant to an exemption therefrom or in any transaction not subject thereto and in each case in compliance with the conditions for transfer set forth in paragraphs (4) and (5) below.

2. You are not our "affiliate" (as defined in Rule 144 under the Securities Act) or acting on our behalf and you are either:

(a) a QIB, within the meaning of Rule 144A under the Securities Act and are aware that any sale of these Notes to you will be made in reliance on Rule 144A under the Securities Act, and such acquisition will be for your own account or for the account of another QIB; or

(b) you are not a U.S. person and are purchasing the Notes in an offshore transaction in accordance with Regulation S under the Securities Act.

3. You acknowledge that none of the Issuer, the Guarantors, or the Initial Purchasers, nor any person representing any of them, has made any representation to you with respect to us or the offer or sale of any of the Notes, other than the information contained in this Offering Memorandum, which Offering Memorandum has been delivered to you and upon which you are relying in making your investment decision with respect to the Notes. You acknowledge that neither the Initial Purchasers nor any person representing the Initial Purchasers make any representation or warranty as to the accuracy or completeness of this Offering Memorandum. You have had access to such financial and other information concerning us and the Notes as you have deemed necessary in connection with your decision to purchase any of the Notes, including an opportunity to ask questions of, and request information from, us and the Initial Purchasers.

4. You are purchasing the Notes for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case for investment, and not with a view to, or for

offer or sale in connection with, any distribution thereof in violation of the Securities Act or the securities laws of any other jurisdiction, subject to any requirement of law that the disposition of your property or the property of such investor account or accounts be at all times within its or their control and subject to your or their ability to resell such Notes pursuant to Rule 144A, Regulation S or any other exemption from registration available under the Securities Act.

5. You agree on your own behalf and on behalf of any investor account for which you are purchasing the Notes, and each subsequent holder of the Notes by its acceptance thereof will be deemed to agree, to offer, sell or otherwise transfer such Notes prior to the date (the "Resale Restriction Termination Date") that is one year (in the case of Rule 144A Note) or 40 days (in the case of Regulation S Note) after the later of the date of the original issue and the last date on which the Issuer or any of its affiliates was the owner of such Notes (or any predecessor thereto) only (i) to the Issuer, (ii) pursuant to a registration statement that has been declared effective under the Securities Act, (iii) for so long as the Notes are eligible pursuant to Rule 144A under the Securities Act, to a person you reasonably believe is a QIB that purchases for its own account or for the account of a QIB to whom notice is given that the transfer is being made in reliance on Rule 144A under the Securities Act, (iv) pursuant to offers and sales that occur outside the United States in compliance with Regulation S under the Securities Act or (v) pursuant to any other available exemption from the registration requirements of the Securities Act; subject in each of the foregoing cases to any requirement of law that the disposition of its property or the property of such investor account or accounts be at all times within its or their control and to compliance with any applicable state securities laws, and any applicable local laws and regulations; and further subject to the Issuer's and the trustee's rights prior to any such offer, sale or transfer (I) pursuant to clauses (iv) and (v) to require the delivery of an opinion of counsel, certification and/or other information satisfactory to each of them and (II) in each of the foregoing cases, to require that a certificate of transfer in the form appearing on the reverse of the security is completed and delivered by the transferor to the Trustee. The foregoing restrictions on resale will not apply subsequent to the Resale Restriction Termination Date.

6. Each purchaser acknowledges that each Note will contain a legend substantially to the following effect:

> THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "U.S. SECURITIES ACT") OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT.
>
> THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR FOR WHICH IT HAS PURCHASED SECURITIES TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE DATE (THE "RESALE RESTRICTION TERMINATION DATE") WHICH IS [IN THE CASE OF REGULATION S NOTES: 40 DAYS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE DATE ON WHICH THIS SECURITY WAS FIRST OFFERED TO PERSONS OTHER THAN DISTRIBUTORS (AS DEFINED IN RULE 902 OF REGULATION S)] [IN THE CASE OF RULE 144A NOTES: ONE YEAR AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE ISSUER OR ANY AFFILIATE OF THE ISSUER WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF THIS SECURITY)], ONLY (A) TO THE ISSUER OR THE GUARANTORS, (B) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BEEN DECLARED EFFECTIVE UNDER THE U.S. SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE U.S. SECURITIES ACT ("RULE 144A"), TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES IN COMPLIANCE WITH REGULATION S UNDER THE U.S. SECURITIES ACT OR (E) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION

FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT, SUBJECT IN EACH OF THE FOREGOING CASES TO ANY REQUIREMENT OF LAW THAT THE DISPOSITION OF ITS PROPERTY OR THE PROPERTY OF SUCH INVESTOR ACCOUNT OR ACCOUNTS BE AT ALL TIMES WITHIN ITS OR THEIR CONTROL AND IN COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS, AND ANY APPLICABLE LOCAL LAWS AND REGULATIONS AND FURTHER SUBJECT TO THE ISSUER'S AND THE TRUSTEE'S RIGHTS PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER (I) PURSUANT TO CLAUSE (E) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM, (II) IN EACH OF THE FOREGOING CASES, TO REQUIRE THAT A CERTIFICATE OF TRANSFER IN THE FORM APPEARING ON THE OTHER SIDE OF THIS SECURITY IS COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE TRUSTEE AND (III) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF REPRESENTS THAT (1) EITHER (A) IT IS NOT AND FOR SO LONG AS IT HOLDS THIS SECURITY (OR ANY INTEREST THEREIN) WILL NOT BE (I) AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA") THAT IS SUBJECT TO TITLE I OF ERISA, (II) A "PLAN" AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), (III) AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE THE ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN SUBJECT TO ERISA OR OTHER PLAN SUBJECT TO SECTION 4975 OF THE CODE OR (IV) A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN THAT IS SUBJECT TO ANY STATE, LOCAL, OTHER FEDERAL LAW OF THE UNITED STATES OR NON-U.S. LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE, OR (B) ITS ACQUISITION, HOLDING AND SUBSEQUENT DISPOSITION OF THIS SECURITY (OR ANY INTEREST THEREIN) WILL NOT CONSTITUTE OR RESULT IN ANY NON-EXEMPT PROHIBITED TRANSACTION UNDER ERISA OR SECTION 4975 OF THE CODE OR VIOLATE ANY SIMILAR LAW, AND (2) IT WILL NOT TRANSFER THIS SECURITY TO ANY PERSON OR ENTITY, UNLESS SUCH PERSON OR ENTITY COULD ITSELF TRUTHFULLY MAKE THE FOREGOING REPRESENTATIONS AND COVENANTS.

7. If you purchase Notes, you will also be deemed to acknowledge that the foregoing restrictions apply to holders of beneficial interests in these Notes as well as to holders of these Notes.

8. You agree that you will give to each person to whom you transfer the Notes notice of any restrictions on the transfer of such Notes.

9. You acknowledge that until 40 days after the commencement of the Offering, any offer or sale of the Notes within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the Securities Act.

10. You acknowledge that the trustee will not be required to accept for registration or transfer any Notes acquired by you except upon presentation of evidence satisfactory to us and the trustee that the restrictions set forth therein have been complied with.

11. You acknowledge that we, the Guarantors, the Initial Purchasers and others will rely upon the truth and accuracy of your acknowledgements, representations, warranties and agreements and agree that if any of the acknowledgements, representations, warranties and agreements deemed to have been made by your purchase of the Notes are no longer accurate, it shall promptly notify the Initial Purchasers. If you are acquiring any Notes as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each such investor account and that you have full power to make the foregoing acknowledgements, representations and agreements on behalf of each such investor account.

12. You understand that no action has been taken in any jurisdiction (including the United States) by the Issuer or the Initial Purchasers that would result in a public offering of the Notes or the possession, circulation or distribution of this Offering Memorandum or any other material relating to the Issuer or the Notes in any jurisdiction where action for such purpose is required. Consequently, any transfer of the Notes will be subject to the selling restrictions set forth under "*Plan of Distribution.*"

ERISA Considerations

The Notes may be purchased and held by or with the assets of an employee benefit plan subject to Title I of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), an individual retirement account or other plan or arrangement subject to Section 4975 of the Code or an employee benefit plan sponsored by a state or local government or otherwise subject to laws that include restrictions substantially similar to Title I of ERISA and Section 4975 of the Code ("Similar Laws"). A fiduciary of an employee benefit plan subject to ERISA must determine that the purchase and holding of a Note is consistent with its fiduciary duties under ERISA. Such fiduciary, as well as any other prospective investor subject to Section 4975 of the Code or any Similar Law, must also determine, and will be deemed to have represented by its acquisition and holding of a Note (or any interest therein) that such acquisition and holding and subsequent disposition will not constitute or result in a non-exempt prohibited transaction under ERISA or Section 4975 of the Code or violate any Similar Law. Such purchaser or transferee should consult legal counsel before purchasing the Notes. Nothing herein shall be construed as a representation that an investment in the Notes is appropriate for, or would meet any or all of the relevant legal requirements with respect to investments by, an employee benefit plan or other plan or arrangement subject to ERISA, Section 4975 of the Code or any Similar Law.

LEGAL MATTERS

Certain legal matters in connection with the Offering will be passed upon for the Issuer and the Guarantors by Davis Polk & Wardwell London LLP, with respect to U.S. federal and New York law. Certain legal matters in connection with the Offering will be passed upon for the Issuer and the Guarantors by Slaughter and May, with respect to English law. Certain legal matters in connection with the Offering will be passed upon for the Initial Purchasers by Allen & Overy LLP, with respect to U.S. federal, New York and English law.

INDEPENDENT AUDITORS

The annual consolidated financial statements of the Group as at and for each of the 52 weeks ended 30 November 2014, 29 November 2015 and 27 November 2016 included in this Offering Memorandum were audited by PwC, independent auditors and a member of the Institute of Chartered Accountants in England and Wales as stated in their reports appearing herein.

A resolution to approve the appointment of Deloitte LLP as U.K. statutory auditor was put forth by the Board and approved by shareholder vote at the Company's annual general meeting on 3 May 2017. PwC ceased to hold office effective as of the conclusion of the Company's annual general meeting, having completed the audit of the Company's consolidated financial statements as of and for the 52 weeks ended 27 November 2016. Deloitte LLP was engaged as principal accountants from 3 May 2017.

WHERE YOU CAN FIND MORE INFORMATION

Each purchaser of the Notes from the Initial Purchasers will be furnished with a copy of this Offering Memorandum and, to the extent provided to the Initial Purchaser by the Issuer for such purpose, any related amendments or supplements to this Offering Memorandum. Each person receiving this Offering Memorandum and any related amendments or supplements to the Offering Memorandum acknowledges that:

- such person has been afforded an opportunity to request from the Issuer and to review, and has received, all additional information considered by it to be necessary to verify the accuracy and completeness of the information herein;
- such person has not relied on the Initial Purchasers or any person affiliated with the Initial Purchasers in connection with its investigation of the accuracy of such information or its investment decision; and
- except as provided above, no person has been authorised to give any information or to make any representation concerning the Notes offered hereby other than those contained herein and, if given or made, such other information or representation should not be relied upon as having been authorised by the Issuer or the Initial Purchasers.

This Offering Memorandum contains summaries, believed to be accurate in all material respects, of certain terms of certain agreements, but reference is made to the actual agreements (copies of which will be made available upon request to the Issuer or the Initial Purchasers) for complete information with respect thereto, and all such summaries are qualified in their entirety by this reference. While any Notes remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer and, with respect to financial information, Ocado Group plc, will make available, upon request, to any holder and any prospective purchaser of Notes the information required pursuant to Rule 144A(d)(4) under the Securities Act during any period in which the Issuer is not subject to Section 13 or 15(d) of the Exchange Act or exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act. Requests for such information and requests for the agreements summarised in this Offering Memorandum should be directed to Company Secretary, Buildings One & Two Trident Place, Mosquito Way, Hatfield, Hertfordshire AL10 9UL, England. Information contained on the Issuer's website is not incorporated by reference into this Offering Memorandum and is not part of this Offering Memorandum.

For so long as the Notes are listed on the Exchange for trading on the Global Exchange Market and the rules of that exchange so require, copies of such information will be available for review during the normal business hours on any business day at the specified office of the principal paying agent. Please see "*Listing and General Information".*

LISTING AND GENERAL INFORMATION

1. The Issuer is a listed company incorporated in England and Wales, pursuant to the Companies Act 2006. The Issuer was incorporated on 8 December 2009 as a private company, re-registered as a plc on 23 June 2010 and is registered under company number 07098618. Its registered office is located at Buildings One & Two Trident Place, Mosquito Way, Hatfield, Hertfordshire AL10 9UL, England.
2. The issue of the Notes was authorized a resolution of the Board of Directors of the Issuer dated 6 June 2017, with approval of the final terms delegated to a committee of the Board of Directors of the Issuer. The final terms of the Notes were authorized by a resolution of such committee on 9 June 2017.
3. Application is expected to be made to the Irish Stock Exchange for the listing of and permission to deal in the Notes on the Official List of the Irish Stock Exchange. There can be no assurance that the Notes will be listed on the Official List of the Irish Stock Exchange, that such permission to deal in the Notes will be granted or that such listing will be maintained.
4. The Notes sold pursuant to Regulation S and Rule 144A have been accepted for clearance through the facilities of Euroclear and Clearstream under common codes 163400189 and 163400197 respectively. The international securities identification number (ISIN) for the Notes sold pursuant to Regulation S is XS1634001892 and for the Notes sold pursuant to Rule 144A is XS1634001975.
5. We have appointed HSBC Corporate Trustee Company (UK) Limited, as Trustee under the terms of the Indenture. The conditions under which the Trustee may be replaced are set out in the Indenture.
6. We have appointed HSBC Bank plc, as Paying Agent.
7. We have appointed HSBC Bank plc, as Transfer Agent and Registrar.
8. Except as disclosed in this Offering Memorandum, there has been no material adverse change in our financial condition or prospects since 27 November 2016, the end of the period to which our most recent audited consolidated financial statements relate.
9. Electronic or physical copies of the following documents will be available for inspection free of charge, during normal business hours on any weekday, at our offices located at Buildings One & Two Trident Place, Mosquito Way, Hatfield, Hertfordshire AL10 9UL, England from the date of publication of this Offering Memorandum for the life of the Notes:
   - the Offering Memorandum;
   - the Memorandum of Association of the Issuer;
   - the Security Documents;
   - the Intercreditor Agreement;
   - the Indenture; and
   - our audited consolidated financial statements for FYE 2016, FYE 2015 and FYE 2014 (containing comparatives for FYE 2014), together with the auditors' report relating thereto, and our unaudited condensed consolidated financial statements for P5 2017 (containing comparatives for P5 2016).
10. Holders of the Notes may contact the Issuer with questions relating to the transfer of Notes.
11. The Issuer has not been engaged in or, so far as the Issuer is aware, has pending or threatened, any governmental, legal or arbitration proceedings which may have, or have had, a significant effect on the Issuer's or Group financial position or profitability during the 12 months preceding the date of this Offering Memorandum.
12. Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in relation to the Notes and is not itself seeking admission of the Notes to the Official List of the Exchange or to trading on the Global Exchange Market of the Exchange.
13. The audited consolidated financial statements contained herein include both Guarantor and non-guarantor subsidiaries of the Issuer.
14. Details of the Guarantors, each of which is a directly or indirectly wholly-owned subsidiary of the Issuer, except for two class A ordinary shares of Marie Claire Beauty Limited representing at most 2% of the economic rights of its total share capital but ordinarily representing 0%, are set out below. The Guarantors represented after taking intercompany eliminations into account, £88.1 million, or 115.3%, of our Adjusted EBITDA and £248.1 million, or 94.6%, of our net assets for the 52 weeks ended, or as at, 27 November 2016.

Ocado Holdings Limited is a private, limited company incorporated on 5 February 2010 under the laws of England and Wales, with registration number 07148670. The address of its registered office is Buildings One & Two, Trident Place, Mosquito Way, Hatfield, Hertfordshire AL10 9UL, England.

Ocado Retail Limited ("ORL") is a private, limited company incorporated on 11 November 1999 under the laws of England and Wales, with registration number 03875000. The address of its registered office is Buildings One & Two, Trident Place, Mosquito Way, Hatfield, Hertfordshire AL10 9UL, England. The principal activity of ORL is the retailing of products to end customers through the Ocado.com website and ownership of the Group's supplier relationships. ORL represented represented after taking intercompany eliminations into account, £348.9 million, or 453.7%, of our Adjusted EBITDA and £(41.3) million, or (15.7)%, of our net assets for the 52 weeks ended 27 November 2016. The risks facing ORL are largely the same as those facing the Issuer. See "*Risk Factors*". There are no encumbrances on the assets of ORL that could materially affect its ability to meet its obligations under the guarantee.

Ocado Operating Limited ("OOL") is a private, limited company incorporated on 19 May 2014 under the laws of England and Wales, with registration number 09047186. The address of its registered office is Buildings One & Two, Trident Place, Mosquito Way, Hatfield, Hertfordshire AL10 9UL, England. The company's principal activities are to provide physical online grocery fulfilment services to ORL (as defined below) and to Morrisons. The Company also undertook to provide the technology aspects of online grocery fulfilment services (the "Services") to ORL and to Morrisons but sub-contracted the provision of those Services to OIL (as defined below), another member of the Ocado Group. OOL represented after taking intercompany eliminations into account, £25.8 million, or 33.5%, of our Adjusted EBITDA and £207.5 million, or 79.1%, of our net assets for the 52 weeks ended 27 November 2016. The risks facing OOL are largely the same as those facing the Issuer. See "*Risk Factors*". There are no encumbrances on the assets of OOL that could materially affect its ability to meet its obligations under the guarantee.

Ocado Central Services Limited is a private, limited company incorporated on 19 May 2014 under the laws of England and Wales, with registration number 09047023. The address of its registered office is Buildings One & Two Trident Place, Mosquito Way, Hatfield, Hertfordshire AL10 9UL, England.

Ocado Innovation Limited ("OIL") is a private, limited company incorporated on 13 December 2013 under the laws of England and Wales, with registration number 08813912. The address of its registered office is Buildings One & Two, Trident Place, Mosquito Way, Hatfield, Hertfordshire AL10 9UL, England. The company's principal activities are to provide certain Services to members of the Group and to Morrisons. OIL represented after taking intercompany eliminations into account, £22.9 million, or 29.8%, of our Adjusted EBITDA and £117.2 million, or 44.7%, of our net assets for the 52 weeks ended 27 November 2016. The risks facing OIL are largely the same as those facing the Issuer. See "*Risk Factors*". There are no encumbrances on the assets of OIL that could materially affect its ability to meet its obligations under the guarantee.

Ocado International Holdings Limited is a private, limited company incorporated on 24 April 2001 under the laws of England and Wales, with registration number 04204963. The address of its registered office is Buildings One & Two Trident Place, Mosquito Way, Hatfield, Hertfordshire AL10 9UL, England.

Marie Claire Beauty Limited is a private, limited company incorporated on 7 October 2014 under the laws of England and Wales, with registration number 09252560. The address of its registered office is Aquarius House, Bessemer Road, Welwyn Garden City, Hertfordshire AL7 1HH, England.

Speciality Stores Limited is a private, limited company incorporated on 1 August 2014 under the laws of England and Wales, with registration number 09158618. The address of its registered office is Aquarius House, Bessemer Road, Welwyn Garden City, Hertfordshire AL7 1HH, England.

GLOSSARY AND TECHNICAL TERMS

The following definitions and technical terms apply throughout this document unless the context requires otherwise:

2008 Agreement	means the agreement between Ocado, Waitrose and John Lewis dated 20 February 2008 (as amended on 22 August 2008), more fully described in "*Business—Our Retail Business—Relationship with Waitrose and the sourcing of products*".
2010 Agreement	means the updated agreement between Ocado, Waitrose and John Lewis dated 25 May 2010, more fully described in "*Business—Our Retail Business—Relationship with Waitrose and the sourcing of products*".
Adjusted EBITDA	See *"Presentation of Financial and Other Data—Non-GAAP Measures/Alternative Performance Measures—Adjusted EBITDA".*
Adjusted EBITDA margin	means Adjusted EBITDA as a percentage of Revenue (Retail).
Board	means the board of directors of the Company or its subsidiaries from time to time as the context may require.
Branding Arrangements	means the branding arrangements which replaced the Branding Agreement, as set out in the 2008 Agreement and the 2010 Agreement, more fully described in *"Business—Our Retail Business—Relationship with Waitrose and the sourcing of products—Terms of the Sourcing Agreement and Branding Arrangements*".
Brexit	means the U.K.'s decision to leave the European Union following the referendum on 23 June 2016.
Business	means the Group's core business, being the online sale of groceries via the Website.
Company	means Ocado Group plc, a company incorporated in England and Wales with registered number 7098618 whose registered office is at Buildings One & Two Trident Place, Mosquito Way, Hatfield, Hertfordshire AL10 9UL, England.
Customer Fulfilment Centre or CFC	means one of Ocado's customer fulfilment centres, a dedicated highly automated warehouse used for the operation of the business and more fully described in "*Business—Overview*" or, generally, a customer fulfilment centre (as the context requires). The CFCs are: CFC1 in Hatfield, CFC2 in Dordon, CFC3 in Andover and CFC4 in Erith (under construction).
Deloitte	means Deloitte LLP.
Directors	means the Directors of the Issuer set forth in the Offering Memorandum.
Disclosure Guidance and Transparency Rules	means the disclosure guidance and transparency rules made under Part VI of the Financial Services and Markets Act 2000 (as amended).

Distribution Costs	means 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.
DPV	means average deliveries per van per week.
Exceptional Items	See *"Presentation of Financial and Other Data—Non-GAAP Measures/Alternative Performance Measures—Exceptional Items".*
Executive Directors	means Tim Steiner, Neill Abrams, Duncan Tatton-Brown and Mark Richardson.
Fabled.com	means the Group's premium beauty online store in collaboration with Marie Claire and Time Inc.
Fetch.co.uk	means the Group's dedicated online pet store.
Financial Year or FYE	means the 52 week period, or 53 week period where relevant, ending the closest Sunday to 30 November.
FSMA	means the Financial Services and Markets Act 2000 (as amended).
FYE 2012	means the financial year (that is, the period of 53 weeks) ended 2 December 2012.
FYE 2013	means the financial year (that is, the period of 52 weeks) ended 1 December 2013.
FYE 2014	means the financial year (that is, the period of 52 weeks) ended 30 November 2014.
FYE 2015	means the financial year (that is, the period of 52 weeks) ended 29 November 2015.
FYE 2016	means the financial year (that is, the period of 52 weeks) ended 27 November 2016.
FYE 2017	means the financial year (that is, the period of 52 weeks) ended 25 November 2017.
FYE 2018	means the financial year (that is, the period of 52 weeks) ended 24 November 2018.
GAAP	means generally accepted accounting principles.
GMDC	means the General Merchandise Distribution Centre in Welwyn Garden City, a dedicated highly automated warehouse used for the operation of the business.
Gross margin	means gross profit expressed as a percentage of Gross Sales (Group).

Gross Sales (Group)	means sales (net of returns), including charges for delivery, before deducting relevant vouchers, offers and value added tax. Gross Sales (Group) also includes income received pursuant to the Morrisons Operating Agreement. Relevant vouchers and offers include money-off coupons, conditional spend vouchers and multi- buy offers, such as buy three for the price of two.
Gross Sales (Retail)	means sales of the Group's retail operation being Ocado.com, fabled. com, fetch.co.uk and sizzle.co.uk.
Group	means Ocado Group plc and its subsidiaries.
HMRC	means Her Majesty's Revenue & Customs.
IAS	means International Accounting Standard(s).
IASB	means International Accounting Standards Board.
IFRS	means International Financial Reporting Standard(s) as adopted by the European Union.
IGD	means the Institute of Grocery Distribution.
IT	means information technology.
John Lewis	means John Lewis plc, the parent company of Waitrose, incorporated in England and Wales with registered number 233462 whose registered office is at 171 Victoria Street, London, SW1E 5NN.
Joint Bookrunners	means Goldman Sachs International, The Royal Bank of Scotland plc (trading as NatWest Markets) and Coöperatieve Rabobank U.A.
Joint Global Coordinators	means Barclays Bank plc and HSBC Bank plc.
KPI	means key performance indicators.
LGV	means Ocado's large goods vehicles; Category N3 motor vehicles used for the carriage of goods and having a maximum mass exceeding 12 tonnes.
LIBOR	means the London Interbank Offered Rate.
LTIP	means the Company's Long Term Incentive Plan for Executive Directors and selected senior managers.
MHE	means mechanical handling equipment.
MHE JVCo	means MHE JVCo Limited, a company incorporated in England and Wales with registered number 8576462, whose registered office is at Buildings One & Two Trident Place, Mosquito Way, Hatfield, Hertfordshire AL10 9UL, England. As of the Issue Date, MHE JVCo is jointly owned by a Group subsidiary and Morrisons.
Morrisons	means Wm Morrison Supermarkets PLC, a company incorporated in England and Wales with registered number 353949, whose registered office is at Hilmore House, Gain Lane, Bradford, West Yorkshire, BD3 7DL.

Morrisons.com	means Morrisons' online retail business.
Non-Executive Directors	means the non-executive Directors of the Issuer set forth in the Offering Memorandum.
Ocado.com	means the Group's online retail business.
Ocado Smart Pass (previously Saving Pass)	means the Ocado pre-pay membership scheme which includes the delivery pricing scheme previously known as Delivery Pass and the discount membership scheme formerly known as Saving Pass.
OPW	means orders per week.
P5 2016	means the 20 week period ended 17 April 2016.
P5 2017	means the 22 week period ended 30 April 2017.
PwC	means PricewaterhouseCoopers LLP, the Group's historical statutory auditors until 3 May 2017.
SEC	means the U.S. Securities and Exchange Commission.
Securities Act	means the U.S. Securities Act of 1933, as amended.
Shareholder	means a holder for the time being of ordinary shares in the Company.
Sizzle.co.uk	means the Group's dedicated online kitchen and dining store.
SKU	means a "stock keeping unit", that is each line of stock.
Solutions Business or OSP	means the end-to-end software and MHE solution for operating online in the grocery market, which has been developed by the Group.
Sourcing Agreement	means the branding agreement between Ocado and Waitrose dated 13 October 2000 as replaced by the Branding Arrangement, and the agreement between Ocado, Waitrose and John Lewis dated 25 May 2010, both more fully described in *"Business—Relationship with Waitrose and the sourcing of products*".
Spoke	means the trans-shipment sites used for the intermediate handling of customers' orders.
U.K. or United Kingdom	means the United Kingdom of Great Britain and Northern Ireland.
U.K. Corporate Governance Code	means the U.K. Corporate Governance Code published by the Financial Reporting Council, as in force from time to time.
Units	means individual items of grocery available for purchase.
UPH	means average units processed per labour hour.
USDAW	means the Union of Shop, Distributive and Allied Workers.

Waitrose	means Waitrose Limited, a company incorporated in England and Wales with registered number 00099405, whose registered office is at 171 Victoria Street, London, SW1E 5NN.
Webshops	Our dedicated retail destination sites, Ocado.com, Fabled.com, Fetch.co.uk and Sizzle.co.uk.

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CONDENSED CONSOLIDATED INCOME STATEMENT

for the 22 weeks ended 30 April 2017

	Notes	**22 weeks ended 30 April 2017 £m**	20 weeks ended 17 April 2016 £m	52 weeks ended 27 November 2016 £m
		(unaudited)	(unaudited)	(audited)
Revenue	5	**600.5**	481.7	1,271.0
Cost of sales		**(391.5)**	(317.6)	(835.7)
Gross profit		**209.0**	164.1	435.3
Other income		**20.8**	18.4	52.9
Distribution costs		**(175.0)**	(136.9)	(365.7)
Administrative expenses		**(45.1)**	(38.0)	(100.6)
Operating profit before share of result from joint venture		**9.7**	7.6	21.9
Share of result from joint venture		**0.6**	0.6	2.1
Exceptional items		**(0.1)**	—	(2.4)
Operating profit		**10.2**	8.2	21.6
Finance income	7	**0.2**	0.1	0.2
Finance costs	7	**(3.7)**	(3.7)	(9.7)
Profit before tax		**6.7**	4.6	12.1
Taxation		**—**	0.2	(0.1)
Profit for the period		**6.7**	4.8	12.0
Earnings per share		**Pence**	Pence	Pence
Basic	10	**1.13**	0.81	2.02
Diluted	10	**1.10**	0.78	1.96

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the 22 weeks ended 30 April 2017

	22 weeks ended 30 April 2017 £m	20 weeks ended 17 April 2016 £m	52 weeks ended 27 November 2016 £m
	(unaudited)	(unaudited)	(audited)
Profit for the period	**6.7**	4.8	12.0
Other comprehensive (expense) / income:			
Items that may be subsequently reclassified to profit or loss			
Cash flow hedges			
— Gains arising on forward contracts	**—**	—	0.1
— Gains arising on commodity swaps	**—**	0.3	0.8
— Losses arising on commodity swaps	**(0.4)**	—	(0.2)
Translation of foreign subsidiary	**0.1**	0.1	0.3
Other comprehensive (expense) / income for the period, net of tax	**(0.3)**	0.4	1.0
Total comprehensive income for the period	**6.4**	5.2	13.0

CONDENSED CONSOLIDATED BALANCE SHEET

as at 30 April 2017

	Notes	**30 April 2017 £m**	17 April 2016 £m	27 November 2016 £m
		(unaudited)	(unaudited)	(audited)
Non-current assets				
Intangible assets		**93.4**	58.7	79.7
Property, plant and equipment		**418.2**	343.6	397.3
Deferred tax asset		**14.3**	10.1	14.2
Financial assets		**0.4**	1.4	2.6
Investment in Joint Venture		**57.7**	62.8	57.1
		584.0	476.6	550.9
Current assets				
Inventories		**33.5**	28.9	39.1
Trade and other receivables		**73.8**	69.6	59.4
Derivative financial instruments		**—**	—	0.3
Cash and cash equivalents		**41.9**	61.5	50.9
		149.2	160.0	149.7
Total assets		**733.2**	636.6	700.6
Current liabilities				
Trade and other payables		**(196.9)**	(184.7)	(205.6)
Borrowings	9	**(86.5)**	(11.4)	(52.9)
Obligations under finance leases	9	**(35.8)**	(32.2)	(29.8)
Derivative financial instruments		**(0.5)**	(0.5)	(0.2)
Provisions		**(0.3)**	(0.7)	(2.4)
		(320.0)	(229.5)	(290.9)
Net current liabilities		**(170.8)**	(69.5)	(141.2)
Non-current liabilities				
Borrowings	9	**(5.6)**	(6.9)	(6.1)
Obligations under finance leases	9	**(120.8)**	(138.5)	(127.0)
Provisions		**(8.5)**	(8.9)	(7.3)
Deferred tax liability		**(6.8)**	(2.6)	(6.9)
		(141.7)	(156.9)	(147.3)
Net assets		**271.5**	250.2	262.4
Equity				
Share capital		**12.6**	12.6	12.6
Share premium		**257.2**	259.1	256.9
Treasury shares reserve		**(48.0)**	(51.0)	(48.0)
Reverse acquisition reserve		**(116.2)**	(116.2)	(116.2)
Other reserves		**(0.1)**	(0.4)	0.2
Retained earnings		**166.0**	146.1	156.9
Total equity		**271.5**	250 .2	262.4

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the 22 weeks ended 30 April 2017

	Share capital £m	Share premium £m	Treasury shares reserve £m	Reverse acquisition reserve £m	Other reserves £m	Retained earnings £m	Total equity £m
Balance at 27 November 2016 (audited)	12.6	256.9	(48.0)	(116.2)	0.2	156.9	262.4
Profit for the period	—	—	—	—	—	6.7	6.7
Other comprehensive income:							
Cash flow hedges							
— Losses arising on commodity swaps	—	—	—	—	(0.4)	—	(0.4)
Translation of foreign subsidiary	—	—	—	—	0.1	—	0.1
Total comprehensive income for the period	—	—	—	—	(0.3)	6.7	6.4
Transactions with owners:							
— Issue of ordinary shares	—	0.3	—	—	—	—	0.3
— Share-based payments charge	—	—	—	—	—	2.4	2.4
Total transactions with owners	—	0.3	—	—	—	2.4	2.7
Balance at 30 April 2017 (unaudited)	12.6	257.2	(48.0)	(116.2)	(0.1)	166.0	271.5

	Share capital £m	Share premium £m	Treasury shares reserve £m	Reverse acquisition reserve £m	Other reserves £m	Retained earnings £m	Total equity £m
Balance at 29 November 2015 (audited)	12.6	258.7	(50.9)	(116.2)	(0.8)	138.5	241.9
Profit for the period	—	—	—	—	—	4.8	4.8
Other comprehensive income:							
Cash flow hedges							
— Gains arising on hedging contracts	—	—	—	—	0.3	—	0.3
Translation of foreign subsidiary	—	—	—	—	0.1	—	0.1
Total comprehensive income for the period	—	—	—	—	0.4	4.8	5.2
Transactions with owners:							
— Issue of ordinary shares	—	0.4	—	—	—	—	0.4
— Movement in treasury shares	—	—	(0.1)	—	—	—	(0.1)
— Share-based payments charge	—	—	—	—	—	2.8	2.8
Total transactions with owners	—	0.4	—	—	—	2.8	3.1
Balance at 17 April 2016 (unaudited)	12.6	259.1	(51.0)	(116.2)	(0.4)	146.1	250.2

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the 22 weeks ended 30 April 2017

	Notes	**22 weeks ended 30 April 2017 £m**	20 weeks ended 17 April 2016 £m	52 weeks ended 27 November 2016 £m
		(unaudited)	(unaudited)	(audited)
Cash flow from operating activities				
Profit before tax		**6.7**	4.6	12.1
Adjustments for:				
— Depreciation, amortisation and impairment losses		**27.4**	23.0	61.0
— Movement in provisions		**(1.0)**	0.6	0.6
— Share of profit in joint venture		**(0.6)**	(0.6)	(2.1)
— Share-based payments charge		**2.7**	3.0	6.4
— Net finance costs	7	**3.5**	3.7	9.5
Changes in working capital:				
— Movement in inventories		**5.6**	1.0	(9.2)
— Movement in trade and other receivables		**(13.3)**	(7.9)	2.5
— Movement in trade and other payables		**10.2**	25.5	25.2
Cash generated from operations		**41.2**	52.9	106.0
Interest paid		**(3.7)**	(3.7)	(9.1)
Net cash flows from operating activities		**37.5**	49.2	96.9
Cash flows from investing activities				
Purchase of property, plant and equipment		**(53.7)**	(26.3)	(85.3)
Purchase of intangible assets		**(21.4)**	(11.4)	(38.6)
Dividend received from joint venture		**—**	—	8.4
Interest received		**—**	—	0.2
Net cash flows used in investing activities		**(75.1)**	(37.7)	(115.3)
Cash flows from financing activities				
Proceeds from the issue of ordinary share capital net of transactions costs		**0.4**	0.5	1.1
Proceeds from borrowings		**57.5**	10.0	61.3
Repayments of borrowings		**(22.5)**	—	(11.5)
Repayments of obligations under finance leases		**(6.4)**	(5.8)	(26.4)
Payment of financing fees		**(0.4)**	(0.5)	(1.2)
Settlement of cash flow hedges		**—**	—	0.2
Net cash flows from / (used in) financing activities		**28.6**	4.2	(23.5)
Net (decrease) / increase in cash and cash equivalents		**(9.0)**	15.7	5.1
Cash and cash equivalents at the beginning of the period		**50.9**	45.8	45.8
Cash and cash equivalents at the end of the period		**41.9**	61.5	50.9

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 General information

Ocado Group plc (hereafter "the Company") is incorporated and domiciled in England and Wales (registration number 07098618). The address of its registered office is Buildings One & Two, Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9UL. The condensed consolidated financial statements (hereafter "financial information") comprises the results of the Company and its subsidiaries (hereafter "the Group").

The financial period represents the 22 weeks ended 30 April 2017 (prior period 20 weeks ended 17 April 2016; prior financial year 52 weeks ended 27 November 2016).

2 Basis of preparation

The financial information has been prepared in accordance with IAS 34 'Interim Financial Reporting'.

The financial information does not amount to full statutory accounts within the meaning of section 434 of the Companies Act 2006 and does not include all of the information and disclosures required for full annual financial statements. It should be read in conjunction with the Annual Report and Accounts of Ocado Group plc for the 52 weeks ended 27 November 2016 which were prepared in accordance with IFRS as adopted by the European Union and were filed with the Registrar of Companies. This report is available either on request from the Company's registered office or to download from www.ocadogroup.com. The auditor's report on these accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

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

The directors are satisfied that the Company has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the condensed consolidated financial statements.

3 Accounting policies

The accounting policies applied by the Group in these interim financial statements are consistently the same as those applied by the Group in its consolidated financial statements for the 52 weeks ended 27 November 2016. During the current financial period, the Group has not been required to adopt any new accounting standards.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation were the same as those that applied to the Annual Report and Accounts for the 52 weeks ended 27 November 2016.

4 Segmental reporting

The Group's principal activity is grocery retailing and the development of Intellectual Property ("IP") and technology used for the online retailing, logistics and distribution of grocery and consumer goods for our UK business and other partners. The Group is not reliant on any major customer for 10% or more of its revenue.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

4 Segmental reporting (continued)

In accordance with IFRS 8 "Operating Segments", an operating segment is defined as a business activity whose operating results are reviewed by the chief operating decision-maker and for which discrete information is available. 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 Group are currently managed as one segment. Consequently, all activities relate to this segment.

The chief operating decision-maker's main indicator of performance of the segment is Group EBITDA, which is reconciled to operating profit in note 5.

5 Alternative performance measures

We assess the performance of the Group using a variety of alternative performance measures, which are not defined under IFRS and are therefore termed 'non-GAAP' measures. These measures provide additional useful information on the underlying trends, performance and position of the Group. The non-GAAP measures we use are as follows:

Gross Sales

Gross Sales is a measure of reported revenue before excluding value added tax and relevant vouchers and offers. Gross Sales is a common measure used by investors and analysts to evaluate the operating financial performance of companies within the retail sector.

Exceptional Items

The Group's condensed consolidated income statement separately identifies trading results before exceptional Items. The Directors believe that presentation of the Group's results in this way is relevant to an understanding of the Group's financial performance. This presentation is consistent with the way that financial performance is measured by management and reported to the Board and assists in providing a meaningful analysis of the trading results of the Group. This also facilitates comparison with prior periods to assess trends in financial performance more readily. The Group applies judgement in identifying significant non-recurring items of income and expense that are recognised as exceptional to help provide an indication of the Group's underlying business. In determining whether an event or transaction is exceptional in nature, management considers quantitative as well as qualitative factors such as the frequency or predictability of occurrence.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

5 Alternative performance measures (continued)

Group EBITDA

In addition to measuring financial performance of the Group based on operating profit, we also measure performance based on Group EBITDA. Group EBITDA is defined as the Group earnings before depreciation, amortisation, impairment, net finance expense, taxation and exceptional items. Group EBITDA is a common measure used by investors and analysts to evaluate the operating financial performance of companies. We consider Group EBITDA to be a useful measure of our operating performance because it approximates the underlying operating cash flow by eliminating depreciation and amortisation. Group EBITDA is not direct measures of our liquidity, which is shown by our cash flow statement, and needs to be considered in the context of our financial commitments. Below is a reconciliation from Operating profit to Group EBITDA:

	22 weeks ended 30 April 2017 £m	20 weeks ended 17 April 2016 £m	52 weeks ended 27 November 2016 £m
	(unaudited)	(unaudited)	(audited)
Operating profit	**10.2**	8.2	21.6
Adjustments for:			
Depreciation of property, plant and equipment	**21.5**	18.2	47.0
Amortisation expense	**5.8**	4.8	12.6
Impairment of property, plant and equipment	**—**	—	0.3
Impairment of intangibles	**—**	—	0.4
Exceptional items	**0.1**	—	2.4
Group EBITDA	**37.6**	31.2	84.3

Net debt

Net debt consists of loans, finance lease obligations and other borrowings (both current and non-current), less cash and cash equivalents. Loans and other borrowings are measured as the net proceeds raised, adjusted to amortise any discount over the term of the debt. Net debt is a measure of the Group's net indebtedness that provides an indicator of the overall balance sheet strength. It is also a single measure that can be used to assess the combined impact of the Group's cash position and its indebtedness. The use of the term 'net debt' does not necessarily mean that the cash included in the net debt calculation is available to settle the liabilities included in this measure. Net debt is considered to be an alternative performance measure as it is not defined in IFRS. The most directly comparable IFRS measure is the aggregate of loans and other borrowings (current and non-current) and cash and cash equivalents.

6 Gross sales

	22 weeks ended 30 April 2017 £m	20 weeks ended 17 April 2016 £m	52 weeks ended 27 November 2016 £m
	(unaudited)	(unaudited)	(audited)
Revenue	**600.5**	481.7	1,271.0
VAT	**46.4**	36.5	98.9
Marketing vouchers	**8.3**	6.7	16.8
Gross sales	**655.2**	524.9	1,386.7

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

7 Finance income and finance costs

	22 weeks ended 30 April 2017 £m	20 weeks ended 17 April 2016 £m	52 weeks ended 27 November 2016 £m
	(unaudited)	(unaudited)	(audited)
Interest on cash balances	**0.2**	0.1	0.2
Finance income	**0.2**	0.1	0.2
Borrowing costs			
— Obligations under finance leases	**(3.5)**	(3.5)	(9.4)
— Borrowings	**(0.2)**	(0.2)	(0.3)
Finance costs	**(3.7)**	(3.7)	(9.7)
Net finance costs	**(3.7)**	(3.7)	(9.5)

8 Capital expenditure and commitments

During the period the Group acquired property, plant and equipment of £42.7 million (FYE 2016: £118.0 million, P5 2016: £34.6 million). During the period, the Group acquired intangible assets of £2.5 million (FYE 2016: £4.9 million, P5 2016: £1.2 million) and internal development costs capitalised were £16.7 million (FYE 2016: £34.8 million, P5 2016: £10.9 million).

9 Borrowings and obligations under finance leases

	30 April 2017 £m	17 April 2016 £m	27 November 2016 £m
	(unaudited)	(unaudited)	(audited)
Current liabilities			
Borrowings	**86.5**	**11.4**	52.9
Obligations under finance leases	**35.8**	**32.2**	29.8
	122.3	**43.6**	82.7
Non-current liabilities			
Borrowings	**5.6**	**6.9**	6.1
Obligations under finance leases	**120.8**	**138.5**	127.0
	126.4	**145.4**	133.1
Total Group borrowings and finance leases	**248.7**	**189.0**	215.8

10 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares held pursuant to the Group's Joint Share Ownership Scheme which are accounted for as treasury shares.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potentially dilutive shares. The Company has three categories of potentially dilutive shares, namely share options, shares held pursuant to the Group's Joint Share Ownership Scheme and shares under the Group's staff incentive plans.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

10 Earnings per share (continued)

Basic and diluted earnings per share have been calculated as follows:

	22 weeks ended 30 April 2017 million	20 weeks ended 17 April 2016 million	52 weeks ended 27 November 2016 million
	(unaudited)	(unaudited)	(audited)
Number of shares			
Issued shares at the beginning of the period	**598.8**	586.1	590.6
Weighted average effect of share options exercised in the period	**0.2**	0.4	2.5
Weighted average effect of treasury shares disposed of in the period	**—**	—	1.3
Weighted average number of shares at the end of the period for the purposes of basic earnings per share	**599.0**	586.5	594.4
Potentially dilutive share options and shares	**15.1**	18.4	19.1
Weighted average numbers of diluted ordinary shares	**614.1**	604.9	613.5

Earnings	**£m**	£m	£m
Profit for the period	**6.7**	4.8	12.0
	pence	pence	pence
Basic earnings per share	**1.13**	0.80	2.02
Diluted earnings per share	**1.10**	0.78	1.96

11 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 Group. Save for key management personnel remuneration, related party transactions with key management personnel made during the period related to the purchase of professional services and amounted to £1,800 (P5 2016: £750). All transactions with Directors 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 did not owe the Group any amounts (P5 2016: £nil). There were no other material transactions or balances between the Group and its key management personnel or members of their close family.

Investment

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

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

11 Related party transactions (continued)

The following direct transactions were carried out with Paneltex Limited:

	22 weeks ended 30 April 2017 £m	20 weeks ended 17 April 2016 £m	52 weeks ended 27 November 2016 £m
	(unaudited)	(unaudited)	(audited)
Purchase of goods			
— Plant and machinery	—	—	—
— Consumables	0.2	0.2	0.5
Sale of goods	—	—	0.1
	0.2	0.2	0.6

Indirect transactions, consisting of the purchase of plant and machinery through some of the Group's finance lease counterparties, were carried out with Paneltex Limited to the value of £2.7 million (P5 2016: £3.4 million).

At period end, the Group owed £67,000 to Paneltex and is owed £5,000 from Paneltex (P5 2016: the Group owed £45,000 to Paneltex and was owed £6,000 from Paneltex).

Joint Venture

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

	22 weeks ended 30 April 2017 £m	20 weeks ended 17 April 2016 £m	52 weeks ended 27 November 2016 £m
Sale and Leaseback Transaction			
Capital contributions made to MHE JVCo	—	—	1.1
Dividend received from MHE JVCo	—	—	8.4
Reimbursement of supplier invoices paid on behalf of MHE JVCo	**0.1**	3.6	4.9
Lease of assets from MHE JVCo	—	—	3.1
Capital element of finance lease instalments paid to MHE JVCo	**0.6**	—	13.8
Interest element of finance lease instalments accrued or paid to MHE JVCo	**2.2**	2.1	5.8

Included within trade and other receivables is a balance of £7.1 million owed by MHE JVCo (P5 2016: £5.1 million). Included within trade and other payables is a balance of £7.1 million owed to MHE JVCo (P5 2016: £4.8 million). Included within obligations under finance leases is a balance of £108.1 million owed to MHE JVCo (P5 2016: £121.6 million).

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

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

12 Analysis of net debt

(a) Net debt

	30 April 2017 £m	17 April 2016 £m	27 November 2016 £m
	(unaudited)	(unaudited)	(audited)
Current assets			
Cash and cash equivalents	**41.9**	61.5	50.9
	41.9	61.5	50.9
Current liabilities			
Borrowings	**(86.5)**	(11.4)	(52.9)
Obligations under finance leases	**(35.8)**	(32.2)	(29.8)
	(122.3)	(43.6)	(82.7)
Non-current liabilities			
Borrowings	**(5.6)**	(6.9)	(6.1)
Obligations under finance leases	**(120.8)**	(138.5)	(127.0)
	(126.4)	(145.4)	(133.1)
Net debt	**(206.8)**	(127.5)	(164.9)

Net debt is calculated as total debt (obligations under finance leases and borrowings as shown in the condensed consolidated balance sheet), less cash and cash equivalents.

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

	22 weeks ended 30 April 2017 £m	20 weeks ended 17 April 2016 £m	52 weeks ended 27 November 2016 £m
	(unaudited)	(unaudited)	(audited)
Net (increase) / decrease in cash and cash equivalents	**(9.0)**	15.7	5.1
Net (increase) in debt and lease financing	**(26.8)**	(3.3)	(23.4)
Non-cash movements:			
— Assets acquired under finance lease	**(6.1)**	(12.9)	(19.6)
Movement in net debt in the period	**(41.9)**	(0.5)	(37.9)
Opening net debt	**(164.9)**	(127.0)	(127.0)
Closing net debt	**(206.8)**	(127.5)	(164.9)

13 Financial instruments

The Group has commodity swap contracts to manage its exposure to fuel prices. The commodity swap is classed in level two of the financial instruments hierarchy. Level two fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.

The directors consider that the carrying value amounts of financial asset and financials liabilities recorded at amortised cost in the financial statements are approximately equal to their fair values.

14 Post balance sheet events

There were no events after the balance sheet date which require adjustment to, or disclosure in, the financial information.

INDEPENDENT AUDITORS' REPORT
to the members of Ocado Group plc

Report on the group financial statements

Our opinion

In our opinion, Ocado Group plc's group financial statements (the "financial statements"):

- give a true and fair view of the state of the group's affairs as at 27 November 2016 and of its profit and cash flows for the 52 week period (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 and Article 4 of the IAS Regulation.

What we have audited

The financial statements, included within the Annual Report, comprise:

- the Consolidated Balance Sheet as at 27 November 2016;
- the Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the period then ended;
- the Consolidated Statement of Cash Flows for the period then ended;
- the Consolidated Statement of Changes in Equity for the period then ended; and
- the notes to the Consolidated financial statements, which include other explanatory information and the accounting policies.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

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

Our audit approach

Overview

Context

Our 2016 audit was planned and executed having regard to the fact that the operations of Ocado were largely unchanged from the prior year albeit the level of capital expenditure, particularly in relation to developing the OSP technology platform, continued to be significant. In addition we had regard to the continued tough trading environment in the UK grocery market, whilst noting that Ocado continued to grow its customer base and revenues, and the potential impact this might have on cash flow projections used to support asset carrying values. In light of this our overall audit approach in terms of scoping and areas of focus was largely unchanged from the prior year with continued scrutiny over the development and technical feasibility of key capital projects and the assessed economic return that these were anticipated to achieve.

- Overall group materiality: £4.7m which represents 0.37% of revenue.
- The complete financial information of the four significant active trading companies located in the UK, whose results taken together account for all material balances and line items within the consolidated financial statements, were audited by the UK engagement team.
- The UK engagement team also audited the group's joint venture with Wm Morrisons Supermarkets Plc ("Morrisons").
- Commercial income.
- Capitalisation of internal development costs.
- Share based payments.
- Deferred tax asset.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Commercial income As described in note 2.1 to the financial statements (page 134), Ocado has two main streams of commercial income; promotional allowances and volume rebates. In addition within other income are significant sums of advertising ("Media") income. This remains an area of focus due to the judgments involved and the quantum of income recorded under these arrangements and its significance in relation to the result for the period. The amount to be recognised in the income statement for elements of commercial income requires management to apply judgement based on the contractual terms in place with suppliers and estimates of amounts the group is entitled to where transactions span the financial period-end. ***Promotional support and media income*** Promotional support and media income arrangements are typically structured to last for a four week duration and are settled with suppliers within a short period following the relevant service or promotion having been fulfilled. This income stream involves high volume, lower value arrangements and requires limited judgement or	***Promotional support and media income*** Our approach, specifically in relation to promotional income, was underpinned by testing key system controls, including those used to determine the amount of items sold under the terms of a supplier funded promotion arrangement. We determined that the testing of these controls provided us with audit evidence that promotional support income had been recorded appropriately and in the correct period. Our testing for promotions also included checking the computation of the amounts billed to suppliers. We additionally reconciled the total value of promotion income recorded in Ocado's "Promotions" system for the period to the total value recognised in the general ledger and found no material reconciling items. We independently confirmed the terms of a sample of individual promotion and media agreements, covering both the duration of the promotion / campaign and the quantum of promotional support per unit sold / the price charged for the campaign, directly with a range of suppliers, including requesting confirmation of items invoiced in the period and for amounts

Area of focus	How our audit addressed the area of focus
estimation by management in determining the amount that the group is entitled to. Notwithstanding the limited judgement involved, the magnitude of this income is highly material. Our focus was therefore whether an arrangement or agreement for the promotional support and media income recognised existed, whether the relevant promotion or media advertising had taken place and whether the income recognised was recorded in the appropriate period.	accrued at the period end, checking that the amount recognised was recorded in the correct period based on the suppliers' confirmation of details of the period the funding related to. Similar to promotional income, we reconciled the total value of amounts recorded in Ocado's "Media" booking system to the total value of media income recorded in the financial statements and found no material reconciling items. We also selected a sample of individual media adverts in the period and checked that income relating to these adverts was recognised in the period.
Volume rebates Volume rebates is the stream of commercial income which, in our view, involves the most judgement. Volume rebates are earned both on supply arrangements managed by Waitrose (as the group's supply partner) under the Waitrose sourcing agreement referred to on page 11 and on arrangements with direct suppliers to Ocado. Both rebates earned under Waitrose managed supply arrangements and rebates earned from direct suppliers are material to the group's results. Entitlement to income under both the Ocado and Waitrose supply arrangements is based on the level of purchasing activity made by Ocado under the Waitrose sourcing agreement and direct supply agreements and the specific contractual terms negotiated with various suppliers by Waitrose, and in the case of direct suppliers, by Ocado. As Waitrose negotiates and agrees a number of contracts with suppliers, Ocado has to determine income to be recorded based on interim payments received during the year and information provided by Waitrose in relation to amounts due at the period end. The key judgement that we therefore focus on in the calculation of Ocado's share of rebates due from Waitrose is the estimate of amounts to be accrued at the period end, based on information provided by Waitrose. Similarly the key judgement in respect of rebates in relation to direct suppliers is the determination of levels of accrued income to recognise at the period end.	***Volume rebates*** In relation to income due from Waitrose under the terms of their supply arrangements, we visited the Waitrose head office and met with the members of the Waitrose Commercial Finance team responsible for determining rebates due to Ocado. We obtained and read a sample of supplier contracts negotiated by Waitrose and checked that there was an accrual for amounts due to Ocado in relation to these agreements, the accuracy of which we tested as set out below. We also considered how Waitrose determine their overall supplier volume rebate income and the associated Ocado share of this. We agreed a sample of amounts invoiced by Ocado to Waitrose during the period by testing the settlement of these amounts by Waitrose. With respect to accrued income recognised as due from Waitrose at the period end, we obtained a direct confirmation from Waitrose at the period end of the data used by Ocado to estimate the year end accrued income generated from supplies sourced through Waitrose. We reperformed the calculation undertaken by Ocado using this data to determine the year end accrued income and concluded the amounts recognised were reasonable. In respect of income due under direct supply arrangements we circularised a number of suppliers to confirm directly the amount of accrued income that Ocado should recognise at the year end. We received confirmations from all suppliers circularised with no issues of note arising.
Capitalisation of internal development costs As explained on page 20, Ocado develops a significant amount of the software used to operate the systems and technology used in the business and are further developing additional technology to increase the efficiency and capacity of existing operations, and to support future international expansion. In the current period, as set out in the Audit Committee Report on page 60 and in note 3.1 and 3.2, £45m of internal development costs have been capitalised within Intangible Assets and Property, Plant and Equipment.	***Overall commercial income*** In relation to the overall amounts recognised for all material commercial income streams, we analysed the total amounts recognised quarterly for each stream, and compared these amounts

Area of focus	How our audit addressed the area of focus
We focussed on this area due to the size of the internal costs capitalised, and the fact that there is judgement involved in assessing whether the criteria set out in the accounting standards required for capitalisation of such costs had been met, particularly: • The technical feasibility of the project; and • The likelihood of the project delivering sufficient future economic benefits. We had particular regard to the fact that the group has continued to invest in new technology to support future expansion both in the UK and internationally, and therefore we focussed on whether the economic benefits of the various projects under development supported the amounts capitalised. This specifically included: • Projects relating to the re-platforming of the group's technology to enable it to improve its ability to develop and operate and to expand internationally, where the economic benefit of a successful launch is only achieved in the longer term and is inherently, therefore, more judgemental, and • Projects where there are significant judgements made as to the level of future economic benefits due to the innovative nature of some of the technology being developed. As part of our work we also focussed on management's judgements regarding whether capitalised costs were of a developmental rather than research nature (which would result in the costs being expensed rather than capitalised); and whether costs, including employment (payroll) costs, were directly attributable to relevant projects. In light of the development of new software and systems, we also focussed on whether the carrying value of existing capitalised software or systems was impaired. ***Share based payments*** The group has in place a number of different share incentive schemes which are accounted for in accordance with IFRS 2 "Share based payments". These range from non-complex 'vanilla' share option plans to more complex Executive Director long term incentive schemes, details of which are explained in note 4.10. The accounting treatment differs for each scheme depending on the details of the individual scheme. For certain schemes, namely the "Growth Incentive Plan" and the "Long Term Incentive Plans", determining the appropriate accounting charge for	to the equivalent quarter in the previous year, to identify whether there were any unusual trends of significance in the amounts or timing of commercial income recognised in each period. No such items were identified. We obtained a breakdown, by value, of all individual internal development projects capitalised in the period and reconciled this to the amounts recorded in the general ledger, identifying no reconciling differences. We tested all projects where capitalised costs were in excess of £450,000, together with a sample of smaller projects from the remaining population, as follows: • We obtained explanations from management of why the project was considered to be capital in nature, in terms of how the specific requirements of the relevant accounting standards and other guidance, most notably of IAS 38, IAS 16 and SIC 32 (Web Site Costs) were met. We also conducted interviews with individual project development managers responsible for the projects selected to corroborate these explanations and to obtain an understanding of the specific projects to enable us to independently assess whether the projects met all the criteria for capitalisation set out in accounting standards. We found the explanations obtained from individual project managers to be consistent with those obtained from management, our understanding of developments in the business and supported management's assessment that the costs met the relevant capitalisation criteria. • We challenged both management and the relevant development project managers as to whether the development of new software or systems superseded or impaired any of the existing assets on the balance sheet. We noted that, as disclosed in notes 3.1 and 3.2 an impairment charge of £1.4m was recorded in this regard, but did not identify any further indicators of impairment. We also applied our own understanding of both new and existing projects and considered whether, in our view, there were any projects where the software is no longer in use or its life was shortened by any development activity. We found no such items. To determine whether costs were directly attributable to projects, we obtained listings of hours worked on individual projects and selected

Area of focus	How our audit addressed the area of focus
the period requires various judgments to be made including the likelihood of specific performance criteria being met (e.g., 'Revenue' and 'Earnings Before Interest, Tax and Exceptionals' targets and share price growth) which determines whether an award will crystallise, and the level of payout that will be achieved. Whilst there were no new material schemes introduced during the year there were a number of grants under pre-existing schemes. We focussed on understanding the details of each grant and the associated accounting in relation to such grants as well as existing schemes where measurement criteria, impacting the accounting, needed to be reassessed in the year.	a sample of the individual hours recorded and met with the project manager of the relevant project to obtain an understanding of the project being worked upon and to confirm that the employee selected for testing was involved on the project and to ascertain the nature of the work they had been performing. We also checked the hours charged equated to the value of costs capitalised, by applying the standard charge out rate per employee to the timesheet hours, without exception. We also tested the standard hourly rates, referred to above, that had been applied to the hours identified as appropriate for capitalisation by reconciling these to the hourly rate equivalent of the average salary of Ocado's technology development team. We agreed that the rates applied reflected an appropriate amount of internal development employee costs in each instance with no significant matters arising.
Deferred tax asset As set out in the Audit Committee Report on page 61 and note 2.8 Ocado recognise a deferred tax asset of £14.2m. This was an enhanced area of focus in the current year as the group now has recorded a profit in each of the last three years raising the prospect of potentially recognising a larger element of available tax losses as an asset on the balance sheet. Determining an appropriate level of deferred tax asset to recognise requires some judgement particularly in relation to the assessed future profitability of the business and the risk adjustment factors applied to these profit projections by management as described on page 132.	For all new grants we discussed with management the accounting that they had applied, and together with our own independent evaluation of the contractual documentation, evaluated whether the accounting charge (where applicable) and disclosures in relation to each scheme were in accordance with IFRS 2, and determined that the treatment and disclosures relating to the schemes was consistent with the accounting requirements. We also re-performed the related calculations to check their arithmetical accuracy with no exceptions identified. Where the accounting charge to be recorded was dependent on judgement around the achievement of various performance criteria, including an assessment of achieving future targets, we challenged management's assumptions and performed sensitivity tests around the projected achievement levels. We also compared the future projections used by management, to determine the accounting charge, to the group's detailed business plans and forecasts and external market data, which we found to be materially consistent. We also had regard to the level of historical accuracy of management's projections. In light of the above, we found that the judgements made by management were reasonable and that the charge booked was not materially sensitive to what we considered to be a range of realistically possible alternative outcomes as to the levels of performance attained.

Area of focus	How our audit addressed the area of focus
	We obtained the detailed tax computation produced for the group and tested the computation of accelerated capital allowances and tax losses available to offset against current and future taxable profits. In addition we tested the arithmetic accuracy of the model used by management to derive the level of deferred tax asset to recognise as well as validating that the inputs to the model were appropriate and consistent, where appropriate, with projections used elsewhere in the business. No issues of note arose from this work. We further considered the appropriateness of the risk adjustment factor applied to the calculation having regard to the continued profitability of the business and the wider challenges and opportunities facing Ocado as set out in the strategic report on pages 8 and 9 and CEO's review on pages 22 to 25. On balance we concluded that the level of risk adjustment was appropriate given the current and forecast trading performance of the business, the market place it operates in and the current status of international expansion plans.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the group, the accounting processes and controls, and the industry in which the group operates.

As described in the Strategic Report, specifically on pages 8-12, the group's main trading activities are grocery retailing and the development and monetisation of intellectual property and technology for the online retailing, logistics and distribution of grocery and consumer goods, which is all currently undertaken in the UK.

The group's retailing, logistics and technology development operations are held in separate legal entities. The scope of our audit includes all the four significant active trading companies located in the UK, whose results taken together account for all material balances and line items within the consolidated financial statements. All entities are managed from one central location in the UK and all audit work is undertaken by the UK engagement team.

The group structure also includes a Joint Venture arrangement with Morrisons related to the provision of warehouse equipment in CFC2. The results of this entity are also audited by the UK engagement team. No audit work was deemed necessary in relation to the remaining trading entities, the group's captive insurer in Malta or development operation in Poland as the results of these entities are immaterial to the overall consolidated financial statements.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall group materiality	£4.7m (2015: £4.5m).
How we determined it	0.37% of revenue.
Rationale for benchmark applied	We have applied revenue as a benchmark for determining materiality as we considered that this provides us with a consistent year-on-year basis for determining materiality, reflecting the group's growth and investment plans and levels of profitability, and which we believe is also a key measure used by the shareholders as a body in assessing the group's performance.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £235,000 (2015: £225,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the directors' statement, set out on page 35, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the directors' statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the group has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the group's ability to continue as a going concern.

Report on the group financial statements

Consistency of other information

Companies Act 2006 opinion

- 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.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

• information in the Annual Report is: — materially inconsistent with the information in the audited financial statements; or — apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or — otherwise misleading.	We have no exceptions to report.
• the statement given by the directors on page 57, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the	We have no exceptions to report.

information necessary for members to assess the group's position and performance, business model and strategy is materially inconsistent with our knowledge of the group acquired in the course of performing our audit.

• the section of the Annual Report on pages 59 to 63, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

• the directors' confirmation on page 58 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
• the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
• the directors' explanation on page 35 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the directors' statement that they have carried out a robust assessment of the principal risks facing the group and the directors' statement in relation to the longer-term viability of the group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of 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. We have no exceptions to report arising from this responsibility.

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.

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on pages 72 to 73, 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.

What an audit of financial statements involves

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 group'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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in 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.

Other matter

We have reported separately on the company financial statements of Ocado Group plc for the 52 week period ended 27 November 2016 and on the information in the Directors' Remuneration Report that is described as having been audited.

Andrew Latham (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
St Albans
30 January 2017

CONSOLIDATED INCOME STATEMENT

for the 52 weeks ended 27 November 2016

	Notes	**52 Weeks Ended 27 November 2016 £m**	52 Weeks Ended 29 November 2015 £m
Revenue	2.3	**1,271.0**	1,107.6
Cost of sales		**(835.7)**	(732.5)
Gross profit		**435.3**	375.1
Other income	2.4	**52.9**	49.0
Distribution costs		**(365.7)**	(309.4)
Administrative expenses		**(100.6)**	(95.6)
Operating profit before result from joint venture and exceptional items		**21.9**	19.1
Share of result from joint venture	3.4	**2.1**	2.3
Exceptional items	2.7	**(2.4)**	—
Operating profit	2.5	**21.6**	21.4
Finance income	4.5	**0.2**	0.2
Finance costs	4.5	**(9.7)**	(9.7)
Profit before tax		**12.1**	11.9
Taxation	2.8	**(0.1)**	(0.1)
Profit for the period		**12.0**	11.8
Earnings per share		**pence**	pence
Basic earnings per share	2.9	**2.02**	2.01
Diluted earnings per share	2.9	**1.96**	1.91

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

	Notes	**52 Weeks Ended 27 November 2016 £m**	52 Weeks Ended 29 November 2015 £m
Operating profit		**21.6**	21.4
Adjustments for:			
Depreciation of property, plant and equipment	3.2	**47.0**	45.1
Amortisation expense	3.1	**12.6**	13.2
Impairment of property, plant and equipment	3.2	**0.3**	1.0
Impairment of intangible assets	3.1	**0.4**	0.8
Exceptional items – Impairment of property, plant and equipment	2.7, 3.2	**0.7**	—
Exceptional items – other	2.7	**1.7**	—
EBITDA		**84.3**	81.5

The notes on pages 130 to 173 form part of these financial statements.

A See Alternative Performance Measures on page 194

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the 52 weeks ended 27 November 2016

	52 Weeks Ended 27 November 2016 £m	52 Weeks Ended 29 November 2015 £m
Profit for the period	**12.0**	11.8
Other comprehensive income:		
Items that may be subsequently reclassified to profit or loss		
Cash flow hedges		
— Gains arising on forward contracts	**0.1**	0.2
— Gains arising on commodity swaps	**0.8**	—
— Losses arising on commodity swaps	**(0.2)**	(0.7)
Foreign exchange gains on translation of foreign subsidiary	**0.3**	—
Other comprehensive income for the period, net of tax	**1.0**	(0.5)
Total comprehensive income for the period	**13.0**	11.3

The notes on pages 130 to 173 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

as at 27 November 2016

	Notes	**27 November 2016 £m**	29 November 2015 £m
Non-Current Assets			
Intangible assets	3.1	**79.7**	52.9
Property, plant and equipment	3.2	**397.3**	327.3
Deferred tax asset	2.8	**14.2**	10.0
Financial assets	3.3	**2.6**	2.9
Investment in joint ventures	3.4	**57.1**	62.0
		550.9	455.1
Current Assets			
Inventories	3.7	**39.1**	29.9
Trade and other receivables	3.8	**59.4**	60.8
Derivative financial instruments	4.6	**0.3**	—
Cash and cash equivalents	3.9	**50.9**	45.8
		149.7	136.5
Total Assets		**700.6**	591.6
Current Liabilities			
Trade and other payables	3.10	**(205.6)**	(164.4)
Borrowings	4.2	**(52.9)**	(1.6)
Obligations under finance leases	4.3	**(29.8)**	(26.5)
Derivative financial instruments	4.6	**(0.2)**	(0.7)
Provisions	3.11	**(2.4)**	(2.8)
		(290.9)	(196.0)
Net Current Liabilities		**(141.2)**	(59.5)
Non-Current Liabilities			
Borrowings	4.2	**(6.1)**	(7.7)
Obligations under finance leases	4.3	**(127.0)**	(137.0)
Provisions	3.11	**(7.3)**	(6.3)
Deferred tax liability	2.8	**(6.9)**	(2.7)
		(147.3)	(153.7)
Net Assets		**262.4**	241.9
Equity			
Share capital	4.9	**12.6**	12.6
Share premium	4.9	**256.9**	258.7
Treasury shares reserve	4.9	**(48.0)**	(50.9)
Reverse acquisition reserve	4.9	**(116.2)**	(116.2)
Other reserves	4.9	**0.2**	(0.8)
Retained earnings		**156.9**	138.5
Total Equity		**262.4**	241.9

The notes on pages 130 to 173 form part of these financial statements.

The Consolidated financial statements on pages 125 to 173 were authorised for issue by the Board of Directors and signed on its behalf by:

Tim Steiner
Chief Executive Officer

Duncan Tatton-Brown
Chief Financial Officer

Ocado Group plc
Company Registration Number 07098618 (England and Wales)
31 January 2017

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the 52 weeks ended 27 November 2016

	Notes	Share Capital £m	Share Premium £m	Treasury Shares Reserve £m	Reverse Acquisition Reserve £m	Other Reserves £m	Retained Earnings £m	Total Equity £m
Balance at 30 November 2014		12.5	255.1	(51.8)	(116.2)	(0.3)	118.9	218.2
Profit for the period		—	—	—	—	—	11.8	11.8
Other comprehensive income:								
Cash flow hedges								
— Gains arising on forward contracts	4.9	—	—	—	—	0.2	—	0.2
— Losses arising on commodity swaps	4.9	—	—	—	—	(0.7)	—	(0.7)
Translation of foreign subsidiary	4.9	—	—	—	—	—	—	—
Total Comprehensive Income/ (Expense) for the Period Ended 29 November 2015		—	—	—	—	(0.5)	11.8	11.3
Transactions with owners:								
— Issues of ordinary shares	4.9	0.1	4.4	—	—	—	—	4.5
— Share-based payments charge		—	—	—	—	—	7.8	7.8
— Reacquisition of interests in treasury shares		—	(0.8)	0.8	—	—	—	—
— Disposal of treasury shares		—	—	0.1	—	—	—	0.1
Total Transactions with Owners		0.1	3.6	0.9	—	—	7.8	12.4
Balance at 29 November 2015		12.6	258.7	(50.9)	(116.2)	(0.8)	138.5	241.9
Profit for the period		—	—	—	—	—	12.0	12.0
Other comprehensive income:								
Cash flow hedges								
— Gains arising on forward contracts	4.9	—	—	—	—	0.1	—	0.1
— Gains arising on commodity swaps	4.9	—	—	—	—	0.8	—	0.8
— Losses arising on commodity swaps	4.9	—	—	—	—	(0.2)	—	(0.2)
Translation of foreign subsidiary	4.9	—	—	—	—	0.3	—	0.3
Total Comprehensive Income for the Period Ended 27 November 2016		**—**	**—**	**—**	**—**	**1.0**	**12.0**	**13.0**
Transactions with owners:								
— Issues of ordinary shares	4.9	—	1.1	—	—	—	—	1.1
— Share-based payments charge	4.10	—	—	—	—	—	6.4	6.4
— Disposal of treasury shares	4.9	—	(2.9)	2.9	—	—	—	—
Total Transactions with Owners		—	(1.8)	2.9	—	—	6.4	7.5
Balance at 27 November 2016		**12.6**	**256.9**	**(48.0)**	**(116.2)**	**0.2**	**156.9**	**262.4**

The notes on pages 130 to 173 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the 52 weeks ended 27 November 2016

	Notes	**52 weeks Ended 27 November 2016 £m**	52 weeks Ended 29 November 2015 £m
Cash Flows from Operating Activities			
Profit before tax		**12.1**	11.9
Adjustments for:			
— Depreciation, amortisation and impairment losses	3.1, 3.2	**61.0**	60.1
— Movement in provisions	3.11	**0.6**	3.2
— Share of profit in joint venture	3.4	**(2.1)**	(2.3)
— Share-based payments charge	2.6	**6.4**	7.8
— Net Finance costs	4.5	**9.5**	9.5
Changes in working capital:			
— Movement in inventories		**(9.2)**	(2.3)
— Movement in trade and other receivables		**2.5**	(19.1)
— Movement in trade and other payables		**25.2**	23.7
Cash Generated from Operations		**106.0**	92.5
Interest paid		**(9.1)**	(9.7)
Net Cash Flows from Operating Activities		**96.9**	82.8
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		**(85.3)**	(70.7)
Purchase of intangible assets		**(38.6)**	(28.4)
Dividend received from joint venture		**8.4**	8.1
Interest received		**0.2**	0.2
Net Cash Flows from Investing Activities		**(115.3)**	(90.8)
Cash Flows from Financing Activities			
Proceeds from the issue of ordinary share capital net of transaction costs		**1.1**	4.5
Proceeds from borrowings		**61.3**	8.2
Repayment of borrowings		**(11.5)**	(5.6)
Repayments of obligations under finance leases		**(26.4)**	(26.9)
Payment of financing fees		**(1.2)**	(2.5)
Settlement of cash flow hedges		**0.2**	(0.2)
Net Cash Flows from Financing Activities		**23.5**	(22.5)
Net Increase/(Decrease) in Cash and Cash Equivalents		**5.1**	(30.5)
Cash and cash equivalents at the beginning of the period		**45.8**	76.3
Cash and Cash Equivalents at the end of the Period	3.9	**50.9**	45.8

The notes on pages 130 to 173 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Section 1 — Basis of Preparation

1.1 General Information

Ocado Group plc (hereafter "the Company") is a listed company incorporated in England and Wales under the Companies Act 2006 (Registration number 07098618). The address of its registered office is Titan Court, 3 Bishops Square, Hatfield Business Park, Hatfield, Hertfordshire, AL10 9NE. The financial statements comprise the results of the Company, its subsidiaries and the Group's interest in a jointly controlled entity (hereafter "the Group"). See Note 5.1. The Financial Period represents the 52 weeks ended 27 November 2016. The prior financial period represents the 52 weeks ended 29 November 2015. The principal activities of the Group are described in the Strategic Report on pages 6 to 43.

1.2 Basis of Preparation

The financial statements have been prepared in accordance with the Listing Rules and the Disclosure Guidance and Transparency Rules of the UK Financial Conduct Authority (where applicable), International Financial Reporting Standards (IFRS) and International Financial Reporting Standards Interpretation Committee (IFRIC) 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 accounting policies applied are consistent with those described in the annual report and financial statements for the 52 weeks ended 29 November 2015 of Ocado Group plc.

The financial statements are presented in pounds sterling, rounded to the nearest hundred thousand unless otherwise stated. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial asset investments and certain financial assets and liabilities, which are held at fair value.

The Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements of the Group.

Standards, amendments and interpretations adopted by the Group in the financial period or issued that are effective

The Group has considered the following new standards, interpretations and amendments to published standards that are effective for the Group for the financial year beginning 30 November 2015 and concluded that they are either not relevant to the Group or that they would not have a significant impact on the Group's financial statements:

		Effective Date
IFRS 5	Share-based Payments	1 January 2016
IFRS 10	Consolidated Financial Statements	1 January 2016
IFRS 11	Joint Arrangements	1 January 2016
IFRS 12	Disclosure in Other Entities	1 January 2016
IAS 1	Presentation of Financial Statements	1 January 2016
IAS 16	Property, Plant and Equipment	1 January 2016
IAS 28	Investments in Associates and Joint Ventures	1 January 2016
IAS 36	Intangible Assets	1 January 2016

1.2 Basis of Preparation (continued)

Standards, amendments and interpretations issued that are not effective, and which have not been early-adopted by the Group

The following further new standards, interpretations and amendments to published standards and interpretations which are relevant to the Group have been issued but are not effective for the financial year beginning 30 November 2015 and have not been adopted early:

		Effective Date
IFRS 2	Share-based payments	1 January 2018
IFRS 9	Financial Instruments	1 January 2018
IFRS 12	Disclosure in Other Entities	1 January 2017
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Leases	1 January 2019
IAS 28	Investments in Associates and Joint Ventures	1 January 2018
Various	Amendments to various IFRSs and IASs including those arising from the IASB's annual improvements project	Various

The following new standards are not yet effective and the impact on the Group is currently under review:

— IFRS 15 "Revenue from Contracts with Customers" (endorsed by the EU) provides on the recognition and measurement of revenue. The standard establishes a principles-based approach for revenue recognition and is based on the concept of recognising revenue for obligations only when they are satisfied and the control of goods or services is transferred. This applies to all contracts with customers except those in the scope of other standards. This new standard will replace IAS 12 "Revenue" and is effective for annual periods beginning on or after 1 January 2018 unless adopted early. The Group is currently reviewing the impact of IFRS 15.

— IFRS 16 "Leases" provides guidance on the classification, recognition and measurement of leases to help provide useful information to the users of financial statements. The main aim of this standard is to ensure all leases will be reflected on the Consolidated Balance Sheet, irrespective of substance over form. The new standard will replace IAS 17 "Leases" and is effective for annual periods beginning on or after 1 January 2019 unless adopted early. The Group is currently reviewing the impact of IFRS 16.

1.3 Basis of Consolidation

The consolidated Group financial statements consist of the financial statements of the Company, all entities controlled by the Company (its subsidiaries) and the Group's share of its interests in joint ventures.

Subsidiaries

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which power over the operating and financial decisions is obtained and cease to be consolidated from the date on which power is transferred out of the Group. Power is achieved when the Company has the ability and right, directly or indirectly, to govern the financial and operating policies of an entity. This ability enables the Company to affect the amount of economic benefit generated from the entity's activities. This is evident for all of the Group's subsidiaries per Note 5.1.

Ocado Polska Sp. Z.o.o. has a year end of 30 November 2016, as the Poland Accounting Act requires a financial year to be 12 full calendar months from the prior year end date. Ocado Spain S.L.U. has a year end of 31 December 2016, as established in its articles of association. There was no material movement between the reporting date of the Group and the reporting dates of these entities.

All other subsidiaries have a year end of 27 November 2016.

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

1.3 Basis of Consolidation (continued)

Joint Ventures

The Group's share of the results of joint ventures is included in the Consolidated Income Statement 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 Group's share of the net assets of the entity, less any impairment in value. The carrying values of the investments in joint ventures include acquired goodwill.

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

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

Accounting Policies

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

Foreign Currency Translation

Functional and Presentation Currency

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

Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated 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 Consolidated Income Statement within finance income or finance costs. All other foreign exchange gains and losses are presented in the Consolidated Income Statement within operating profit.

Group Companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

a. assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

b. income and expenses for each income statement are translated at average exchange rates (unless average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

c. all resulting exchange differences are recognised as a separate component of equity.

1.4 Significant Accounting Policies and Critical Estimates, Judgements and Assumptions

The preparation of the Group financial statements requires the use of certain judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses.

1.4 Significant Accounting Policies and Critical Estimates, Judgements and Assumptions (continued)

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.

Changes in accounting estimates may be necessary if there are changes in the circumstances on which the estimate was based or as a result of new information or more experience. Significant accounting policies, estimates and assumptions, and judgements are provided below.

Accounting policies that are significant due to the nature of business:

Area	Estimate	Note
Revenue recognition	Revenue comprises the fair value of consideration received or receivable for the sale of goods and services. Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred, which is upon delivery of the goods to the customer's home for Ocado deliveries and upon transfer of goods to the courier for third party deliveries. Revenue from the rendering of services is recognised over the period in which services are rendered.	2.1

Significant Estimates and Assumptions:

Area	Estimate	Note
Cost of Sales	At the period end the Group is required to estimate supplier income due from annual agreements for volume rebates, which span across the year end date. Confirmation of some amounts due is often only received three to six months after the period end.	2.1
Share options and other equity instruments	The cost of equity-settled transactions with employees is measured, where appropriate, with reference to the fair value at the date on which they are granted. Estimates applied or used in a valuation model in order to calculate the cost include, but are not limited to, the expected life of the award, the number of awards that will ultimately vest and the expected volatility of the Company's share price.	4.10

Significant Judgements:

Area	Judgement	Note
Recognition of deferred tax assets	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.	2.8
Intangible assets (capitalisation of software costs)	The cost of internally generated assets is capitalised as an intangible asset where it is determined by management's judgement that the ability to develop the assets is technically feasible, will be completed, and that the asset will generate economic benefit that outweighs its cost.	3.1
Exceptional items[A]	The Group applies judgement in identifying the significant non-recurring items of income and expense that are recognised as exceptional to help provide an indication of the Group's underlying business performance.	2.7
Share options and other equity instruments	The selection of valuation models, such as the Black–Scholes model, and parameters used in order to determine the fair value of certain share awards requires judgement.	4.10

A See Alternative Performance Measures on page 194

1.4 Significant Accounting Policies and Critical Estimates, Judgements and Assumptions (continued)

Area	Judgement	Note
Going concern	In order to assess whether it is appropriate for the Group to be reported as a going concern, the Directors apply judgement, having undertaken appropriate enquiries and having considered the business activities and the Group's principal risks and uncertainties as set out on pages 34 to 37. In arriving at this judgement there are a large number of assumptions and estimates involved in calculating future cash flow projections. This includes management's expectations of revenue, EBITDA[A] , timing and quantum of future capital expenditure and estimates and cost of future funding. The Group is required to undergo an assessment of the future viability of assets grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The Directors judge that under the Group's current operating structure, the lowest level at which cash flows can be assessed is for the Group as a whole.	1.5

Other estimates, assumptions and judgements are applied by the Group. These include, but are not limited to, depreciation and amortisation on tangible and intangible assets respectively, and provisions. These estimates, assumptions and judgements are also evaluated on a continual basis but are not significant.

1.5 Going Concern Basis including its Effect on the Impairment of Assets

Accounting standards require that Directors satisfy themselves that it is reasonable for them to conclude whether it is appropriate to prepare financial statements on a going concern basis. There has been no material uncertainty identified which would cast significant doubt upon the Group's ability to continue using the going concern basis of accounting for the 12 months following the approval of this Annual Report.

In assessing going concern, the Directors take into account the Group's cash flows, solvency and liquidity positions and borrowing facilities. At the period end, the Group had cash and cash equivalents of £50.9 million (2015: £45.8 million), external gross debt[A] (excluding finance leases payable to MHE JVCo) of £107.0 million (2015: £53.3 million) and net current liabilities of £141.2 million (2015: £59.5 million). The Group has a mix of short and medium term finance arrangements and has a £210 million revolving credit facility which contains typical financial covenants and runs until July 2019. £52.5 million of this facility has been drawn down to date. The Group forecasts its liquidity requirements, working capital position and the maintenance of sufficient headroom against the financial covenants in its borrowing facilities (see below). The financial position of the Group, including information on cash flow, can be found in Our Financials on pages 125 to 189. In determining whether there are material uncertainties, the Directors consider the Group's business activities, together with factors that are likely to affect its future development and position (see section 7 on pages 14 to 15) and the Group's principal risks and the likely effectiveness of any mitigating actions and controls available to the Directors (see pages 34 to 37).

Further details of the Group's considerations are provided in the Group's Viability and Going Concern Statement on page 35.

Impairment of Assets Based on the Separation of the Business into Cash Generating Units

The Group is required to undergo an assessment of the future viability of assets grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Given the Group's current operating structure, the lowest level at which cash flows can reasonably be assessed is for the Group as a whole. The Board does not consider that any further impairment of assets is required.

A See Alternative Performance Measures on page 194

1.5 Going Concern Basis including its Effect on the Impairment of Assets (continued)

There are a large number of assumptions and estimates involved in calculating these future cash flow projections, including management's expectations of increase in revenue and EBITDA[A], the timing and quantum of future capital expenditure, and estimation and cost of future funding.

Section 2 — Results for the Year

2.1 Profit Before Tax

Accounting Policies

Revenue

The Group follows the principles of IAS 18 "Revenue", in determining appropriate revenue recognition policies.

Revenue comprises the fair value of consideration received or receivable for the sale of goods and services. These 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 and carrier bag receipts are included in revenue.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred. For deliveries performed by Ocado, recognition of revenue is upon delivery of the goods to the customer's home. For goods which are delivered by third party couriers, revenue is recognised when the items have been transferred to the third party for onward delivery to the customer. 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.

Revenue from the rendering of services is recognised over the period in which services are rendered. Initial licence contract revenues are recognised over a term which is specific to individual customer contracts. For services, the term is the period over which services are rendered. For the licence of technology assets, the revenue is 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.

Cost of Sales

Cost of sales represents the cost of groceries and other products the Group sells, any associated licence fees which are driven by 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.

Commercial Income

The Group continues to have agreements with suppliers whereby promotional allowances and volume-related rebates are received in connection with the promotion or purchase of goods for resale from those suppliers. The allowances and rebates are included in cost of sales. For the 52 weeks ended 27 November 2016, promotional allowances represent 82% (2015: 85%) of commercial income, with volume-related rebates representing 18% (2015: 15%).

Promotional Allowances

Cost of sales includes monies received from suppliers in relation to the agreed funding of selected items that are sold by the Group on promotion and is recognised once the promotional activity has taken place in the period to which it relates on an accruals basis. The estimates required for this source of income are limited because the time periods of promotional activity, in most cases, are less than one month and the invoicing for the activity occurs on a regular basis shortly after the promotions have ended.

2.1 Profit Before Tax (continued)

Volume-Related Rebates

At the period end the Group is required to estimate supplier income due from annual agreements for volume rebates, which span across the year end date. Estimates are required due to the fact that confirmation of some amounts due is often only received three to six months after the period end. Where estimates are required, these are based on current performance, historical data for prior years and a review of significant supplier contracts. A material amount of this income is received from third parties via the Group's supply agreement with Waitrose. The estimates for this income are prepared following discussions with Waitrose throughout the year and regularly reviewed by senior management.

Uncollected Commercial Income

Uncollected commercial income as at the balance sheet date is classified within trade and other receivables. Where commercial income has been earned, but not yet invoiced at the balance sheet date, the amount is recorded in accrued income.

Other Income

Other income comprises the fair value of consideration received or receivable for advertising services provided by Ocado to suppliers and other third parties on the Webshop, commission income, rental income, sublease payments receivable and amounts receivable not in the ordinary course of business. Income for advertising services is recognised over the particular time period for which the service is provided on an accruals basis. An adjustment is made at the period end to accrue the amount of income in relation to campaigns that may span the period end; however, such adjustments are not typically material.

Employee Benefits

The Group contributes to the personal pension plans of its staff through two pension plans: a defined contribution Group personal pension, which was administered by Standard Life until August 2016 and is now administered by Legal & General, and a defined contribution Money Purchase Scheme administered by People's Pensions. Employer contributions to the schemes 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. In most cases, this is the customer's home. This includes the payroll-related expenses for the picking, dispatch and delivery of products 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. This includes costs incurred on behalf of Morrisons which are subsequently recharged.

Administrative Expenses

Administrative expenses consist of all IT costs, advertising and marketing expenditure (excluding vouchers), share-based payments costs, employment costs of all central functions, which include board, legal, finance, human resources, marketing and procurement, rent and other property-related costs for the head office, all fees for professional services and the depreciation, amortisation and impairment associated with IT equipment, software, fixtures and fittings. Additionally, this includes costs incurred on behalf of Morrisons which are subsequently recharged.

2.1 Profit Before Tax (continued)

Exceptional Items[A]

The Group has adopted an income statement format which seeks to highlight significant items within the Group results for the year. The Group believes this format is useful as it highlights one-off items, such as material set-up costs for new fulfilment warehouses, reorganisation and restructuring costs, profit or loss on disposal of operations, and impairment of assets. Exceptional items, as disclosed on the face of the Consolidated Income Statement, are items that due to their material and/or non-recurring nature, as determined by management, have been classified separately in order to draw them to the attention of the reader of the financial statements and to avoid distortion of underlying performance. This facilitates comparison with prior periods to assess trends in financial performance more readily. It is determined by management that each of these items relates to events or circumstances that are non-recurring in nature.

The Group applies judgement in identifying the significant non-recurring items of income and expense that are recognised as exceptional to help provide an indication of the Group's underlying business performance. Examples of items that the Group considers as exceptional include, but are not limited to, material costs relating to the opening of a new warehouse, corporate reorganisations, head office relocation costs, and any material costs, outside of the normal course of business as determined by management.

2.2 Segmental Reporting

The Group's principal activities are grocery retailing and the development and monetisation of Intellectual Property ("IP") and technology used for the online retailing, logistics and distribution of grocery and consumer goods, currently derived solely from the UK. The Group is not reliant on any major customer for 10% or more of its revenue.

In accordance with IFRS 8 "Operating Segments", an operating segment is defined as a business activity whose operating results are reviewed by the chief operating decision-maker ("CODM") and for which discrete information is available. Operating segments are reported in a manner consistent with the internal reporting provided to the CODM, as required by IFRS 8. The CODM, 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 Group are currently managed as one segment. Consequently, all activities relate to this segment.

The CODM's main indicator of performance of the segment is EBITDA, which is reconciled to operating profit below the Consolidated Income Statement.

2.3 Gross Sales[A]

The reconciliation of revenue to gross sales[A] is as follows:

	52 Weeks Ended 27 November 2016 £m	52 Weeks Ended 29 November 2015 £m
Revenue	**1,271.0**	1,107.6
VAT	**98.9**	82.4
Marketing vouchers	**16.8**	14.4
Gross sales	**1,386.7**	1,204.4

A See Alternative Performance Measures on page 194

2.4 Other Income

Other income comprises:

	52 Weeks Ended 27 November 2016 £m	52 Weeks Ended 29 November 2015 £m
Media and other income	**38.6**	35.3
Rental income	**14.3**	13.7
Other income	**52.9**	49.0

2.5 Operating Expenses

Operating expenses include:

	Notes	**52 Weeks Ended 27 November 2016 £m**	52 Weeks Ended 29 November 2015 £m
Cost of inventories recognised as an expense		**821.2**	715.3
Employment costs	2.6	**249.3**	212.8
Amortisation expense	3.1	**12.6**	13.2
Depreciation of property, plant and equipment	3.2	**47.0**	45.1
Impairment of property, plant and equipment, included in:			
— Distribution costs	3.2	**0.3**	1.0
— Exceptional items[A]	2.7, 3.2	**0.7**	—
Impairment of intangible assets, included in:			
— Administrative expenses	3.1	**0.4**	0.8
Impairment of receivables	3.8	**1.1**	0.8
Operating lease rentals			
— Land and buildings		**12.8**	10.3
— Other leases		**—**	0.3
Net foreign exchange movements		**0.6**	—

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

	52 Weeks Ended 27 November 2016 £'000	52 Weeks Ended 29 November 2015 £'000
Fees payable to the Company auditor for the audit of the Parent Company and consolidation		
— Statutory Group and Company audit	**65**	57
Fees payable to the Company auditor for other services		
— Statutory audit of subsidiaries	**257**	230
— Non-audit fees	**50**	37
— Audit related services	**31**	30
	403	354

A See Alternative Performance Measures on page 194

2.6 Employee Information

Employment costs during the financial period were as follows:

	52 Weeks Ended 27 November 2016 £m	52 Weeks Ended 29 November 2015 £m
Staff Costs During the Period:		
Wages and salaries	**252.8**	206.8
Social security costs	**22.2**	18.1
Other pension costs	**5.6**	5.1
Share-based payment expense*	**7.1**	9.9
Total gross employment costs	**287.7**	239.9
Staff costs capitalised to Intangible assets	**(29.8)**	(21.3)
Staff costs capitalised to property, plant and equipment	**(8.6)**	(5.8)
Total Employment Cost Expense	**249.3**	212.8
Average Monthly Number of Employees (including Executive Directors) by Function		
Operational staff	**9,308**	7,453
Support staff	**1,622**	1,241
	10,930	8,694

* Included in the share-based payment expense is the IFRS 2 equity-settled charge of £6.4 million (2015: £7.8 million) and an additional provision of £0.7 million (2015: £2.1 million) for the payment of amounts due to participants of the Cash LTIP and the Beauty MIP, and for the payment of employer's national insurance contributions on certain employee incentive schemes.

2.7 Exceptional items[A]

	52 Weeks Ended 27 November 2016 £m	52 Weeks Ended 29 November 2015 £m
Head office relocation costs		
— Impairment of property, plant and equipment	**0.7**	—
— Other	**0.8**	—
Litigation costs	**0.9**	—
	2.4	—

Head office relocation costs

Following the growth of the business, the Group decided to relocate its head office. The move to the new premises is being completed in stages to minimise the impact on the business and the Group has incurred dual running costs as it transitions to the new premises. Due to the one-off nature of the head office move, these costs have been treated as exceptional.

Litigation costs

The Group has incurred litigation costs relating to the recovery of interchange fees for card transactions. The fees relating to this are material and non-recurring and have therefore been treated as exceptional.

A See Alternative Performance Measures on page 194

2.8 Taxation

Accounting Policies

The tax charge for the period comprises current and deferred tax. Tax is recognised in the Consolidated 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, calculated using tax rates enacted by the balance sheet date. Management periodically evaluate 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 income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of reversal of the temporary differences is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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 have forecast that the Group 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.

Research and Development Expenditure Credit

The Group takes advantage of the incentives offered under the UK's Research and Development Expenditure Credit (RDEC) regime to claim a credit for the Group's significant expenditure on qualifying research and development. As enacted in the Finance Act 2015, the credit due to the Group is equal to 11% of the Group's qualifying expenditure. The Group continues to utilise the additional benefits from the scheme in light of the Group's commitment to its innovative technology and software.

The Group claimed a credit of £1.3 million for the 52 weeks ended 29 November 2015.

Future Changes to Tax Legislation

The Group undertakes regular reviews in order to ensure its ongoing compliance with current and future proposed changes to UK tax legislation. The Group has undertaken a review of the Group's activities in light of the OECD's Base Erosion and Profit Shifting (BEPS) publications and does not foresee any significant impact on the Group's effective tax rate resulting from the proposed changes in the short to medium term.

2.8 Taxation (continued)

Taxation — Income Statement

	52 Weeks Ended 27 November 2016 £m	52 Weeks Ended 29 November 2015 £m
Recognised in the Consolidated Income Statement		
Current tax:		
UK corporation tax on profits of the period	**—**	0.1
Overseas corporation tax on profits of the period	**0.1**	(0.1)
Adjustments in respect of prior periods	**—**	0.1
Total Current Tax	**0.1**	0.1
Deferred tax:		
Origination and reversal of temporary differences	**—**	—
Total Deferred Tax	**—**	—
Income Tax Expense	**0.1**	0.1

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the effective tax rate applicable to profits of the Group as follows:

	52 Weeks Ended 27 November 2016 £m	52 Weeks Ended 29 November 2015 £m
Profit before tax	**12.1**	11.9
Effective tax charge at the UK tax rate of 20% (2015: 20.3%)	**2.4**	2.4
Effect of:		
Utilisation of brought forward losses	**(0.6)**	—
Permanent differences	**1.7**	1.8
Difference in overseas tax rates	**—**	0.6
Temporary differences on which no deferred tax recognised	**(3.4)**	(4.8)
Prior year adjustments	**—**	0.1
Income Tax charge for the Period	**0.1**	0.1

As enacted in Finance Act 2014, the standard rate of corporation tax in the UK changed from 21% to 20% with effect from 1 April 2015. The effective rate for the period is 20%.

Taxation — Balance Sheet

Movement in the deferred tax asset is as follows:

	Tax Losses Carried Forward £m
As at 30 November 2014	9.4
Effect of change in UK corporation tax rate	(0.9)
Recognised through the Consolidated Income Statement	1.5
As at 29 November 2015	10.0
Recognised through the Consolidated Income Statement	**4.2**
As at 27 November 2016	**14.2**

As enacted in the Finance Act (No.2) 2016, the main rate of corporation tax will change from 20% to 19% from 1 April 2017, to 18% from 1 April 2018 and to 17% from 1 April 2020. Deferred tax has been provided at the rate at which the deferred tax asset is expected to be utilised.

2.8 Taxation (continued)

Movement in the unrecognised deferred tax asset is set out below:

	Tax Losses Carried Forward £m	Accelerated Capital Allowances £m	Other Short-Term Timing Differences £m	Total £m
As at 30 November 2014	47.6	15.0	0.5	63.1
Effect of change in UK corporation tax rate	(4.8)	(1.5)	—	(6.3)
Potential movement in the period unrecognised through:				
— Consolidated Income Statement	(1.1)	(8.0)	(0.5)	(9.6)
As at 29 November 2015	41.7	5.5	—	47.2
Adjustment through submitted corporation tax returns	**(2.6)**	**16.1**		**13.5**
Potential movement in the period unrecognised through:				
— Consolidated Income Statement	**(4.9)**	**(10.0)**	**—**	**(14.9)**
As at 27 November 2016	**34.2**	**11.6**	**—**	**45.8**

As at 27 November 2016 the Group had approximately £268.6 million of unutilised tax losses (2015: approximately £287.8 million) available for offset against future profits. A deferred tax asset of £14.2 million (2015: £10.0 million) has been recognised in respect of £78.9 million (2015: £55.6 million) of such losses, the recovery of which is supported by the expected level of future profits of the Group. The recognition of the deferred tax asset is based on forecast operating results calculated in approved business plans and a review of tax planning opportunities. Management have concluded that there is sufficient evidence for the recognition of the deferred tax asset of £14.2 million (2015: £10.0 million).

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 set out below:

	£m
As at 30 November 2014	(2.0)
Effect of change in UK corporation tax rate	0.2
Recognised through the Consolidated Income Statement	(0.9)
As at 29 November 2015	(2.7)
Recognised through the Consolidated Income Statement	**(4.2)**
As at 27 November 2016	**(6.9)**

For the year ended 27 November 2016 the Group has recognised a deferred tax liability of £6.9 million (2015: £2.7 million). Of this amount, £6.9 million (2015: £2.3 million) is in respect of intangible assets that management assessed as qualifying for research and development corporation tax relief. The timing of the 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.

2.9 Earnings Per Share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares held pursuant to the Group's JSOS on an allocated basis which are accounted for as treasury shares.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion or vesting of all dilutive potential shares. The Company has two classes of instruments that are potentially dilutive: share options and share interests held pursuant to the JSOS.

2.9 Earnings Per Share (continued)

Basic and diluted earnings per share has been calculated as follows:

	52 Weeks Ended 27 November 2016 Number of Shares (m)	52 Weeks Ended 29 November 2015 Number of Shares (m)
Issued shares at the beginning of the period, excluding treasury shares	**590.6**	586.1
Effect of share options exercised in the period	**2.5**	2.2
Effect of treasury shares disposed of in the period	**1.3**	—
Weighted average number of shares at the end of the period for basic earnings per share	**594.4**	588.3
Potentially dilutive share options and shares	**19.1**	31.1
Weighted average number of diluted ordinary shares	**613.5**	619.4
	£m	£m
Profit attributable to the owners of the Company	**12.0**	11.8
	pence	pence
Basic earnings per share	**2.02**	2.01
Diluted earnings per share	**1.96**	1.91

Section 3 — Assets and Liabilities

3.1 Intangible Assets

Accounting Policies

Intangible Assets

Intangible assets comprise internally generated assets relating mainly to computer software and other intangible assets relating mainly to externally acquired computer software and assets, and the right to use land. These are carried at cost less accumulated amortisation and any recognised impairment loss. Other intangible assets such as externally acquired computer software and software licences are capitalised and amortised on a straight-line basis over their useful lives of three to fifteen 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. For the Group’s impairment policy on non-financial assets see Note 3.2.

Amortisation of intangible 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	3–15 years, or the lease term if shorter
Other intangible assets	3–15 years, or the lease term if shorter
Right to use land	The estimated useful economic life, or the lease term if shorter

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

Cost Capitalisation

The cost of internally generated assets is capitalised as an intangible asset where it is determined by management’s judgement that the ability to develop the assets is technically feasible, will be

3.1 Intangible Assets (continued)

completed, and that the asset will generate economic benefit that outweighs its cost. This is in line with the recognition criteria as outlined in IAS 38 “Intangible Assets”. Management determine whether the nature of the projects meets the recognition criteria to allow for the capitalisation of internal costs, which include the total cost of any external products or services and labour costs directly attributable to development. During the year management have considered whether costs in relation to the time spent on specific software projects can be capitalised. Time spent that was eligible for capitalisation included time which was intrinsic to the development of new assets to be used or monetised by the Group, the enhancement of existing warehouse and routing systems capabilities, or improvements to applications used by the Group’s customers.

Other development costs that do not meet the above criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Research expenditure is recognised as an expense as incurred. These are costs that form part of the intent of gaining new knowledge, which management assess as not satisfying the capitalisation criteria per IAS 38 “Intangible Assets” as outlined above. Examples of research costs include, but are not limited to, the following: salaries and benefits of employees assessing and analysing future technologies and their likely viability, and professional fees such as marketing costs and the cost of third party consultancy.

In certain circumstances, some assets are ready for use, but are not performing as intended by management. Development costs that relate to the enhancement or modifications of existing assets are capitalised until the asset is performing as intended by management. Management assess the capitalisation of these costs by consulting the guidance outlined in IAS 38 “Intangible Assets” and exercise judgement in determining the qualifying costs. When unsure if the enhancement or modification costs relate to the development of the asset or are maintenance expenditure in nature, management treat the expenditure as if it were incurred in the research phase only in line with IAS 38 guidance.

Internally generated assets consist primarily of costs relating to intangible assets which provide economic benefit independent of other assets, and intangible assets that are utilised in the operation of property, plant and equipment. These intangible assets are required for certain tangible assets to operate as intended by management. Management assess each material internally generated asset addition and consider whether it is integral to the successful operation of a related item of hardware, can be used across a number of applications and therefore whether the asset should be recognised as property, plant and equipment. If the asset could be used on other existing or future projects it will be recognised as an intangible asset. For example, should an internally generated asset, such as the software code to enhance the operation of existing CFC equipment, be expected to form the foundation or a substantial element of future software development, it has been recognised as an intangible asset.

Of the internally generated assets capitalised, 22% (2015: 19%) relates to asset additions within property, plant and equipment.

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 Consolidated 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.

3.1 Intangible Assets (continued)

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.

Where the right to use land has been granted, the period over which the amortisation is charged is the lower of the estimated useful economic life and the lease expiry date.

	Internally Generated Assets £m	Other Intangible Assets £m	Total Intangible Assets £m
Cost			
At 30 November 2014	65.6	13.2	78.8
Additions	—	4.4	4.4
Internal development costs capitalised	24.1	—	24.1
Disposals	(6.7)	—	(6.7)
At 29 November 2015	83.0	17.6	100.6
Additions	**—**	**4.9**	**4.9**
Internal development costs capitalised	**34.9**	**—**	**34.9**
Disposals	**(0.3)**	**(0.2)**	**(0.5)**
At 27 November 2016	**117.6**	**22.3**	**139.9**
Accumulated Amortisation			
At 30 November 2014	(36.6)	(3.8)	(40.4)
Charge for the period	(12.4)	(0.8)	(13.2)
Impairment	(0.8)	—	(0.8)
Disposals	6.7	—	6.7
At 29 November 2015	(43.1)	(4.6)	(47.7)
Charge for the period	**(11.8)**	**(0.8)**	**(12.6)**
Impairment	**(0.4)**	**—**	**(0.4)**
Disposals	**0.3**	**0.2**	**0.5**
At 27 November 2016	**(55.0)**	**(5.2)**	**(60.2)**
Net Book Value			
At 29 November 2015	39.9	13.0	52.9
At 27 November 2016	**62.6**	**17.1**	**79.7**

Included within intangible assets is capital work-in-progress for internally generated assets of £20.0 million (2015: £21.7 million) and capital work-in-progress for other intangible assets of £3.3 million (2015: £7.2 million).

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

	52 Weeks Ended 27 November 2016 £m	52 Weeks Ended 29 November 2015 £m
Cost	**14.3**	13.8
Accumulated amortisation	**(11.2)**	(9.3)
Net Book Value	**3.1**	4.5

For the 52 weeks ended 27 November 2016, internal development costs capitalised represented approximately 88% (2015: 85%) of expenditure on intangible assets and 22% (2015: 19%) 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, any costs attributable to bringing the asset to its working condition for its intended use and major spares. An item of property, plant and equipment is recognised as an asset if it is probable that future economic benefits associated with the asset will flow to the entity, and the cost of the asset can be measured reliably.

Property, plant and equipment represents 57% of the total asset base of the Group in 2016 (2015: 55%). The estimates and assumptions made to determine the carrying value of property, plant and equipment and related depreciation are important to the Group's financial position and performance. Management assess the estimates and assumptions based on available external information and historical experience.

In determining the cost of property, plant and equipment, certain costs that relate to the intangible element of an asset are separately disclosed within Intangible assets, Note 3.1. Management exercise judgement to review each material asset addition and consider whether the intangible asset element can be used for other property, plant and equipment additions in the current or future years. Software written for the Group's first CFC in Hatfield is identified as a standalone intangible asset, because it has provided the foundation for software used in some areas of Dordon CFC, and is expected to provide part of the foundation of software used in future centres including Andover CFC.

For more information on the Group's policy on capitalisation of borrowings costs, see Note 4.1.

Depreciation on property, plant and equipment is charged to 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, or the lease term if shorter
Plant and machinery	3–20 years, or the lease term if shorter
Motor vehicles	2–7 years, or the lease term if shorter

Land is held at cost and not depreciated.

Assets in the course of construction are carried at cost less any recognised impairment loss. Cost includes professional fees and other directly attributable costs. Depreciation of these assets commences when the assets are ready for their intended use, on the same basis as other property assets.

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

Estimation of Useful Life

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.

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 Consolidated Income Statement. The useful lives of the Group's assets are determined by management at the time the asset is acquired and reviewed at least annually for appropriateness.

Management also assess the useful lives 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. Historically, changes in useful lives have not resulted in material changes to the Group's depreciation charge.

3.2 Property, Plant and Equipment (continued)

Impairment of Non-Financial Assets

An annual impairment review is performed on assets with indefinite useful lives. Those which do not have indefinite useful lives are subject to an annual depreciation or amortisation charge. These assets 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 costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. 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. When an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Given the Group's current operating structure the lowest level at which cash flows can reasonably be assessed is the Group as a whole. The Group 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.

	Land and Buildings £m	Fixtures, Fittings, Plant and Machinery £m	Motor Vehicles £m	Total £m
Cost				
At 30 November 2014	55.2	352.1	47.4	454.7
Additions	25.5	48.5	18.4	92.4
Internal development costs capitalised	—	5.8	—	5.8
Disposals	—	(3.1)	(10.6)	(13.7)
At 29 November 2015	80.7	403.3	55.2	539.2
Additions	**27.6**	**63.7**	**16.6**	**107.9**
Internal development costs capitalised	**—**	**10.1**	**—**	**10.1**
Disposals	**(0.1)**	**(4.9)**	**(7.5)**	**(12.5)**
At 27 November 2016	**108.2**	**472.2**	**64.3**	**644.7**
Accumulated Depreciation				
At 30 November 2014	(18.5)	(138.8)	(22.2)	(179.5)
Charge for the period	(1.9)	(33.4)	(9.8)	(45.1)
Impairment	(0.1)	(0.9)	—	(1.0)
Disposals	—	3.1	10.6	13.7
At 29 November 2015	(20.5)	(170.0)	(21.4)	(211.9)
Charge for the period	**(1.9)**	**(33.4)**	**(11.7)**	**(47.0)**
Impairment	**—**	**(1.0)**	**—**	**(1.0)**
Disposals	**0.1**	**4.9**	**7.5**	**12.5**
At 27 November 2016	**(22.3)**	**(199.5)**	**(25.6)**	**(247.4)**
Net Book Value				
At 29 November 2015	60.2	233.3	33.8	327.3
At 27 November 2016	**85.9**	**272.7**	**38.7**	**397.3**

3.2 Property, Plant and Equipment (continued)

Included within property, plant and equipment is capital work-in-progress for land and buildings of £27.4 million (2015: £31.9 million) and capital work-in- progress for fixtures, fittings, plant and machinery of £22.9 million (2015: £57.5 million).

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

	Land and Buildings £m	Fixtures, Fittings, Plant and Machinery £m	Motor Vehicles £m	Total £m
At 29 November 2015				
Cost	30.3	207.0	54.5	291.8
Accumulated depreciation and impairment	(17.9)	(92.7)	(20.8)	(131.4)
Net book value	12.4	114.3	33.7	160.4
At 27 November 2016				
Cost	**30.9**	**209.8**	**63.5**	**304.2**
Accumulated depreciation and impairment	**(19.5)**	**(110.6)**	**(25.0)**	**(155.1)**
Net Book Value	**11.4**	**99.2**	**38.5**	**149.1**

Property, plant and equipment with a net book value of £19.0 million (2015: £19.9 million) has been pledged as security for the secured loans (Note 4.2).

3.3 Financial Assets

Accounting Policies

Financial Assets

Financial assets comprise available-for-sale financial assets, prepaid fees in relation to financing activities and contribution towards dilapidations.

Available-for-sale financial assets are those non-derivatives that are not designated as held for trading or that are not designated as “at fair value through profit and loss”. They are included in non-current assets unless the investment matures or management intend to dispose of it within 12 months of the end of the reporting period. Management consider that the Group’s investments fall within this category as explained below.

Prepaid fees in relation to financing activities are recognised when incurred. The prepaid fees are amortised in proportion to the drawdown and utilisation of the underlying facility. Amortisation commenced when the underlying facility was first utilised through to the earlier of the expected refinancing date or end of the term. Any residual of the prepaid fee which is not amortised when the facility is refinanced or repaid will be charged to the Consolidated Income Statement.

Financial assets comprise:

	27 November 2016 £m	29 November 2015 £m
Unlisted equity investment — cost and net book value	**0.4**	0.4
Prepaid financing fees	**0.7**	2.5
Contribution towards dilapidation costs	**1.5**	—
Financial Assets	**2.6**	2.9

Investments

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

3.3 Financial Assets (continued)

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 Consolidated Income Statement. Dividends are recognised in the Consolidated Income Statement when the right to receive payment is established.

The unlisted equity investment comprises a 25% interest in Paneltex Limited ("Paneltex"), a company incorporated in the UK, which has not been treated as an associated undertaking as the Group 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 Group 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 Group does not intend to dispose of this investment in the foreseeable future.

Prepaid Financing Fees

The prepaid financing fees are in relation to financing facilities entered into during the previous year. The non-current portion of prepaid finance costs relates to amounts capitalised during the year which will not be amortised to the Consolidated Income Statement within the next 12 months. In line with the utilisation of the facility, £0.6 million has been released from prepayments.

Contribution Towards Dilapidations

A contribution towards dilapidations is due from the former tenant of two leases entered into during the year and will be utilised when dilapidation costs are incurred at the end of the lease.

3.4 Investment in Joint Ventures

Accounting Policies

The Group has assessed the nature of its joint arrangement under IFRS 11 "Joint Arrangements" and determined it to be a joint venture.

The Group'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 Group's share of the net assets of the entity, less any impairment in value. On transfer of land and/or work-in-progress to joint ventures, the Group recognises only its share of any profits or losses, namely that proportion sold outside the Group.

If the Group's share of losses in a joint venture or associate equals or exceeds its investment in the joint venture or associate, the Group 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 Group's interest in the entity.

Investment in Joint Ventures

The Group has a 50% equity interest valued at £57.1 million (2015: £62.0 million) in MHE JVCo, a joint venture company, incorporated in the UK, in which Morrisons and Ocado Operating Limited, a

3.4 Investment in Joint Ventures (continued)

subsidiary in the Group, are the sole investors. In the current year the Group received a dividend of £8.4 million from MHE JVCo (2015: £8.1 million). The Group injected a £1.1 million capital contribution into MHE JVCo to finance the acquisition of Dordon CFC fixed assets.

The Group's share of profit after tax for the year is detailed as follows:

	27 November 2016 £m	29 November 2015 £m
Group share of revenue	**2.9**	3.1
Group share of expenses, inclusive of tax	**(0.8)**	(0.8)
Group Share of Profit after Tax	**2.1**	2.3

At the period end the Group's share of the net assets of MHE JVCo were valued at £57.1 million (2015: £62.0 million) The principal movements during the year were the £2.1 million Group share of profit after tax, a £1.1 million capital contribution made to MHE JVCo and a dividend of £8.4 million paid by MHE JVCo to the Group.

For the 52 weeks ended 27 November 2016 the entity, MHE JVCo Limited, has recognised net interest income of £5.8 million (2015: £6.2 million). Costs incurred by MHE JVCo include depreciation of £1.6 million (2015: £1.2 million) and a tax charge of £0.3 million (2015: £0.4 million). Material amounts held on its balance sheet as at 27 November 2016 include finance lease receivables of £108.7 million (2015: £119.5 million), £8.6 million of property, plant and equipment (2015: £8.9 million), £0.4 million of cash and cash equivalents (2015: £0.5 million), and £5.3 million of trade and other payables (2015: £5.6 million), contributing towards net assets of £115.5 million (2014: £124.4 million). Other than as a finance lessor to the Group, MHE JVCo has no other significant operations. The principal place of business is the same as for Ocado Group plc, details of which are provided on page 196.

3.5 Business Combinations

Accounting Policies

Business Combinations

The acquisition method of accounting is used for the acquisition of subsidiaries. The cost of the acquisition is measured at the aggregate fair value of the consideration given. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business Combinations" are recognised at their fair value at the date the Group assumes control of the acquiree.

Acquisition related costs are recognised in the Consolidated Income Statement as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement measured at fair value at the date control is achieved. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs.

Investments in Subsidiaries

Investments in subsidiaries held by the Company are carried at cost less accumulated impairment losses. Goodwill is the excess of consideration transferred over the fair value of the identifiable net assets acquired.

There were no investments in new subsidiaries during the 52 weeks to 27 November 2016.

3.6 Working Capital

Accounting Policies

Inventories

Inventories comprise goods held for resale, fuel and other consumable goods. Inventories are valued at the lower of cost and net realisable value as provided in IAS 2 "Inventories". Goods held for resale and consumables are valued using the weighted average cost basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. It also takes into account slow-moving, obsolete and defective inventory. 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. There has been no security granted over inventory unless stated otherwise.

The Group has a mix of grocery and general merchandise items within inventory which have different characteristics. For example, grocery lines have high inventory turnover, while non-food lines are typically held within inventory for a longer period of time and so run a higher risk of obsolescence. As inventories are carried at the lower of cost and net realisable value, this requires the estimation of the eventual sales price of goods to customers in the future. Judgement is applied when estimating the impact on the carrying value of inventories such as slow-moving, obsolete and defective inventory, which includes reviewing the quantity, age and condition of inventories throughout the year.

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 Group's loans and receivables are included in "Trade and other Receivables" in the Consolidated 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.

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.

Provision for Impairment of Trade Receivables

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Any provision made against an impaired receivable is recognised in the Consolidated Income Statement within administrative expenses. Subsequent recoveries of amounts previously written off are credited against this same financial statement caption.

The outcome of an impaired receivable depends on future events which are by their nature uncertain. In assessing the likely outcome, management base their assessment on historical experience and other factors that are believed to be reasonable in the circumstances.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and short-term deposits with a maturity of three months or less at the date of acquisition. Cash at bank and in hand and short-term deposits are shown under current assets on the Consolidated Balance Sheet. The carrying amount of these assets approximates to their fair value. They are therefore included as a component of cash and cash equivalents.

3.6 Working Capital (continued)

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 Group 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.

3.7 Inventories

	27 November 2016 £m	29 November 2015 £m
Goods for resale	**38.6**	29.4
Consumables	**0.5**	0.5
	39.1	29.9

Write down of inventories amounted to £0.1 million (2015: write back of £0.2 million) in the Consolidated Income Statement.

3.8 Trade and Other Receivables

	27 November 2016 £m	29 November 2015 £m
Trade receivables	**25.8**	31.0
Less: provision for impairment of trade receivables	**(2.8)**	(1.7)
Net trade receivables	**23.0**	29.3
Other receivables	**4.8**	4.8
Prepayments	**11.6**	10.7
Accrued income	**20.0**	16.0
	59.4	60.8

Included within trade receivables is a balance of £5.3 million (2015: £5.6 million) owed by MHE JVCo.

Included in trade receivables is £5.9 million (2015: £4.3 million) due from suppliers in relation to commercial and media income. As at 1 January 2017 £4.2 million has been received. Included in accrued income is £10.8 million (2015: £9.5 million) to be invoiced to suppliers in relation to supplier funded promotional activity and £7.0 million (2015: £5.5 million) to be invoiced to suppliers in relation to volume-related rebate amounts. As at 1 January 2017 £14.5 million of accrued income has been invoiced.

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

	27 November 2016		29 November 2015	
	Gross £m	**Impairment £m**	Gross £m	Impairment £m
Not past due	**39.5**	**—**	43.8	—
Past due 0–3 months	**6.9**	**(0.2)**	8.0	(1.7)
Past due 3–6 months	**1.5**	**(0.4)**	—	—
Past due over 6 months	**2.7**	**(2.2)**	—	—
	50.6	**(2.8)**	51.8	(1.7)

3.8 Trade and Other Receivables (continued)

The provisions account for trade receivables is used to record impairment losses unless the Group 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 Consolidated Income Statement.

Trade receivables that are past due but not impaired amount to £4.4 million (2015: £6.3 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:

	27 November 2016 £m	29 November 2015 £m
Past due 0–3 months	**0.9**	6.3
Past due 3–6 months	**1.0**	—
Past due over 6 months	**2.5**	—
	4.4	6.3

3.9 Cash and Cash Equivalents

	27 November 2016 £m	29 November 2015 £m
Cash at bank and in hand	**50.9**	45.8

£4.8 million (2015: £4.7 million) of the Group's cash and cash equivalents are held by the Group's captive insurance company to maintain its solvency requirements. A further £0.2 million (2015: £0.1 million) is held by the trustee of the Group's employee benefit trust in relation to the Ocado Group Sharesave Scheme for employees in Poland. Therefore, these funds are restricted and are not available to circulate within the Group on demand.

3.10 Trade and Other Payables

	27 November 2016 £m	29 November 2015 £m
Trade payables	**95.2**	63.6
Taxation and social security	**6.3**	5.8
Accruals and other payables	**84.2**	74.8
Deferred income	**19.9**	20.2
	205.6	164.4

Deferred income represents the value of delivery income received under the Ocado Smart 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.

3.11 Provisions

Accounting Policies

Provisions are recognised in line with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". Provisions can be distinguished from other types of liability by considering the events that give rise to the obligation and the degree of uncertainty as to the amount or timing of the liability. These are recognised in the Consolidated Balance Sheet when the Group 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.

3.11 Provisions (continued)

The amounts recognised as a provision are management's best estimates of the expenditure to settle present obligations as at Consolidated Balance Sheet date. The outcome depends on future events, which are by their nature uncertain. Any difference between expectations and the actual future liability will be accounted for in the period when this is determined. In assessing the likely outcome, management base their assessment on historical experience and other factors that are believed to be reasonable in the circumstances.

Insurance Claims

Provisions for insurance claims relate to potential motor insurance claims and potential public liability claims where accidents have occurred but a claim has yet to be made. The provision is made based on estimates provided to Ocado by the third party manager of the Ocado Cell in Atlas Insurance PCC Limited (the "Ocado Cell").

Dilapidations

Provisions for dilapidations are made in respect of vehicles and properties where there are obligations to return the vehicles and properties to the condition and state they were in when the Group obtained the right to use them. These are recognised on a property-by-property basis and are based on the Group's best estimate of the likely committed cash outflow. Where relevant, these estimated outflows are discounted to net present value.

Employee Incentive Schemes

Provisions for employee incentive schemes relate to HMRC unapproved equity settled schemes, the Beauty Management Incentive plan ("Beauty MIP") and the Cash-Based Long Term Incentive Plan ("Cash LTIP"). For all unapproved schemes and the Cash LTIP, the Group is liable to pay employer's NIC upon allotment of the share awards.

Unapproved schemes are the Long Term Incentive Plan ("LTIP"), the Chairman's Share Matching Award, the Growth Incentive Plan ("GIP") and unapproved Executive Share Ownership Scheme ("ESOS"). For more details on these schemes, refer to note 4.10.

In 2014, the Group established the Cash LTIP in order to incentivise selected high performing employees of the Company. At the end of the three-year vesting period, employees will be paid a cash amount equal to the notional number of awards at the prevailing share price, adjusted for the achievement of the performance conditions.

Provisions

	Insurance Claims £m	Dilapidations £m	Employee Incentive Schemes £m	Total £m
As at 30 November 2014	0.9	3.1	1.6	5.6
Charged/(credited) to the Consolidated Income Statement				
— additional provision	0.9	0.9	2.1	3.9
— unused amounts reversed	(0.4)	—	—	(0.4)
Used during the period	—	(0.1)	—	(0.1)
Unwind of discount	—	0.1	—	0.1
As at 29 November 2015	1.4	4.0	3.7	9.1
Charged/(credited) to the Consolidated Income Statement				
— additional provision	**0.6**	**0.7**	**0.9**	**2.2**
— unused amounts reversed	**(0.4)**	**1.4**	**(0.2)**	**0.8**
Used during the period	**(0.4)**	**(0.1)**	**(1.9)**	**(2.4)**
As at 27 November 2016	**1.2**	**6.0**	**2.5**	**9.7**

3.11 Provisions (continued)

Analysis of total provisions as at 29 November 2015

	Insurance Claims £m	Dilapidations £m	Employee Incentive Schemes £m	Total £m
Current	0.5	0.2	2.1	2.8
Non-current	0.9	3.8	1.6	6.3
	1.4	4.0	3.7	9.1

Analysis of total provisions as at 27 November 2016

	Insurance Claims £m	**Dilapidations £m**	**Employee Incentive Schemes £m**	**Total £m**
Current	**0.4**	**1.1**	**0.9**	**2.4**
Non-current	**0.8**	**4.9**	**1.6**	**7.3**
	1.2	**6.0**	**2.5**	**9.7**

Insurance Claims

The Ocado Cell uses statistical information built up over several years to estimate, as accurately as possible, the future outturn of the total claims value incurred but not reported as at the balance sheet date. In practice the Ocado Cell receives newly reported claims after the end of the underwriting period that have to be allocated to the year of loss (i.e. the underwriting year of occurrence). The calculation of this provision involves estimating a number of variables, principally the level of claims which may be received and the level of any compensation which may be payable. Uncertainty associated with these factors may result in the ultimate liability being different from the reported provision. Although it is expected that £0.4 million claims will be settled within 12 months of the balance sheet date, the exact timing of utilisation of the provision is uncertain.

Dilapidations

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

The Hatfield CFC lease expires in 2032, the Dordon CFC lease expires in 2038, head office leases expire between 2016 and 2028, with leases for the spokes expiring up to 2068. Contractual amounts are due to be incurred at the end of the respective lease terms.

Leases for vehicles run for five years, with the contractual obligation per vehicle 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.

Employee Incentive Schemes

The provision consists of the Cash LTIP, the Beauty MIP and employer's NIC on HMRC unapproved equity-settled schemes.

The Cash LTIP provision represents the expected cash payments to participants upon vesting of the awards. It has been calculated using various assumptions regarding liquidity, participants' retention and achievability of the performance conditions, and valued with reference to the year end share price. If at any point following initial valuation any of these assumptions are revised, the charge will need to be amended accordingly. In addition to the base cost, since this is a cash benefit, the Group will be liable to pay employer's NIC on the value of the cash award on vesting, which is included in the above employer's NIC provision.

3.11 Provisions (continued)

To calculate the employer's NIC provision, the applicable employers NIC rate is applied to the number of share awards which are expected to vest, valued with reference to the year end share price. The number of share awards expected to vest is dependent on various assumptions which are determined by management; namely participants' retention rate, the expectation of meeting the performance criteria, if any, and the liquidity discount. All assumptions are supported by historical trends and internal financial forecasts, where appropriate.

For the GIP, an external valuation was carried out to determine the fair value of the awards granted (see Note 4.10 (g)).

If at any point during the life of each share award, any non-market conditions are subject to change, such as the retention rate or the likelihood of the performance condition being met, the number of share awards likely to vest will need to be recalculated which will cause the value of the employer's NIC provision to change accordingly.

Once the share awards under each of the schemes have vested, the provision will be utilised when they are allocated to participants. Vesting will occur between 2016 and 2019.

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 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 Consolidated 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 Group. All other leases are classified as operating leases. For property leases, the land and building elements are accounted for separately after determining the appropriate lease classification.

The Group 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[A] 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 Group 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.

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 Consolidated Income Statement on the effective interest rate basis.

4.1 Leases and Borrowings (continued)

Operating Leases

Assets leased under operating leases are not recorded on the Consolidated Balance Sheet. Rental payments are charged directly to the Consolidated 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, the assets are expected to be sold at fair value, and accordingly the profit or loss from the sale is recognised immediately in the Consolidated Income Statement.

Lease Incentives

Lease incentives primarily include upfront cash payments or rent-free periods. Lease incentives are capitalised and released against the relevant rental expense over the lease term.

4.2 Borrowings and Finance Leases

	Notes	**27 November 2016 £m**	29 November 2015 £m
Current Liabilities			
Borrowings	4.2	**52.9**	1.6
Obligations under finance leases	4.3	**29.8**	26.5
		82.7	28.1
Non-Current Liabilities			
Borrowings	4.2	**6.1**	7.7
Obligations under finance leases	4.3	**127.0**	137.0
		133.1	144.7
Total Borrowings and Finance Leases		**215.8**	172.8

Borrowings

	Less Than One Year £m	Between One Year and Two Years £m	Between Two Years and Five Years £m	Total £m
As at 29 November 2015				
Secured loans	1.6	1.5	6.2	9.3
Total Borrowings	1.6	1.5	6.2	9.3
As at 27 November 2016				
Unsecured loans	**51.3**	**—**	**—**	**51.3**
Secured loans	**1.6**	**6.1**	**—**	**7.7**
Total Borrowings	**52.9**	**6.1**	**—**	**59.0**

4.2 Borrowings and Finance Leases (continued)

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

Principal amount £m	Inception	Security Held	Current Interest Rate	Instalment Frequency	Final Payment Due	**Carrying Amount as at 27 November 2016 £m**	Carrying Amount as at 29 November 2015 £m
210.0	July 2014	None	LIBOR + 1.5%	Monthly	July 2019[2]	**51.3**	—
2.5	July 2014	Property, plant and equipment	9.12%[1]	Monthly	July 2017	**0.5**	1.1
8.2	September 2015	Freehold Property	LIBOR + 1.5%	Quarterly	September 2018	**7.2**	8.2
						59.0	9.3
Disclosed as:							
Current						**52.9**	1.6
Non-current						**6.1**	7.7
						59.0	9.3

1. Calculated as the effective interest rate, the calculation of which includes an optional balloon payment at the end of the term.
2. Date of expiry of facility

In the previous year, the unsecured three-year £100 million revolving facility was extended by a further two years and the amount of the facility was increased to £210 million. As at 27 November 2016, £52.5 million of the facility had been utilised, net of transaction fees. The Group regularly reviews its financing arrangements. The facility contains typical restrictions concerning dividend payments and additional debt and leases.

4.3 Obligations Under Finance Leases

	27 November 2016 £m	29 November 2015 £m
Obligations under finance leases due:		
Within one year	**29.8**	26.5
Between one and two years	**25.8**	23.8
Between two and five years	**66.4**	62.1
After five years	**34.8**	51.1
Total obligations under finance leases	**156.8**	163.5

4.3 Obligations Under Finance Leases (continued)

External obligations under finance leases are £48.1 million (2015: £44.0 million) excluding £108.7 million (2015: £119.5 million) payable to MHE JVCo, a joint venture company.

	27 November 2016 £m	29 November 2015 £m
Minimum lease payments due:		
Within one year	**38.4**	34.8
Between one and two years	**31.7**	30.3
Between two and five years	**76.9**	75.0
After five years	**36.8**	55.3
	183.8	195.4
Less: future finance charges	**(27.0)**	(31.9)
Present value of finance lease liabilities	**156.8**	163.5
Disclosed as:		
Current	**29.8**	26.5
Non-current	**127.0**	137.0
	156.8	163.5

The existing finance lease arrangements entered into by the Group 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.

4.4 Analysis of Net Debt[A]

Net debt

	Notes	**27 November 2016 £m**	29 November 2015 £m
Current Assets			
Cash and cash equivalents	3.9	**50.9**	45.8
Current Liabilities			
Borrowings	4.2	**(52.9)**	(1.6)
Obligations under finance leases	4.2	**(29.8)**	(26.5)
		(82.7)	(28.1)
Non-Current Liabilities			
Borrowings	4.2	**(6.1)**	(7.7)
Obligations under finance leases	4.2	**(127.0)**	(137.0)
		(133.1)	(144.7)
Total Net Debt		**(164.9)**	(127.0)

Net debt is £56.2 million (2015: £7.5 million), excluding finance lease obligations of £108.7 million (2015: £119.5 million) payable to MHE JVCo, a joint venture company. £5.0 million (2015: £4.8 million) of the Group's cash and cash equivalents are considered to be restricted and are not available to circulate within the Group on demand. For more information see Note 3.9.

A See Alternative Performance Measures on page 194

4.4 Analysis of Net Debt (continued)[A]

Reconciliation of Net Cash Flow to Movement in Net Debt

	27 November 2016 £m	29 November 2015 £m
Net increase/(decrease) in cash and cash equivalents	**5.1**	(30.5)
Net (increase)/decrease in debt and lease financing	**(23.4)**	24.3
Non-cash movements:		
— Assets acquired under finance lease	**(19.6)**	(21.4)
Movement in Net Debt in the Period	**(37.9)**	(27.6)
Opening net debt	**(127.0)**	(99.4)
Closing Net Debt	**(164.9)**	(127.0)

4.5 Finance Income and Costs

Accounting Policies

Borrowing Costs

Borrowing costs which are directly attributable to the acquisition or construction of qualifying assets are capitalisable. 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.

Finance Income and Costs

Interest income is accounted for on an accruals basis using the effective interest method. Finance costs comprise obligations on finance leases and borrowings and are recognised in the period in which they fall due.

	52 Weeks Ended 27 November 2016 £m	52 Weeks Ended 29 November 2015 £m
Interest on cash balances	**0.2**	0.2
Finance Income	**0.2**	0.2
Borrowing costs		
— Obligations under finance leases	**(9.4)**	(8.8)
— Borrowings	**(0.3)**	(0.6)
Fair value movement in derivatives	**—**	(0.2)
Fair value movement on provisions	**—**	(0.1)
Finance Costs	**(9.7)**	(9.7)
Net Finance Costs	**(9.5)**	(9.5)

The fair value movement in derivative financial instruments arose from fair value adjustments on the Group's cash flow hedges.

4.6 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

A See Alternative Performance Measures on page 194

4.6 Derivative Financial Instruments (continued)

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 27 November 2016 and at 29 November 2015, the Group's derivative financial instruments consisted of commodity swap contracts which are designated as cash flow hedges of highly probable transactions.

The Group 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 Consolidated statement of comprehensive income. The full fair value of hedging derivatives is 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 other comprehensive income. Amounts accumulated through other comprehensive income are recycled in the Consolidated 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 of the Group's cash flow hedges were effective and there is therefore no ineffective portion recognised in profit or loss.

Commodity Swap Contracts

The notional principal amounts of the outstanding commodity swap contracts at 27 November 2016 were £4.8 million (2015: £3.2 million). The hedged highly probable forecast transactions are expected to occur at various dates during the next 12 months. Cumulative net gains of £0.6 million have been recognised in the hedging reserve within other comprehensive income. The net balance at year end was £nil. These gains and losses are recognised in the Consolidated Income Statement in periods during which the hedged forecast transaction affects the Consolidated Income Statement.

	27 November 2016 £m	29 November 2015 £m
Commodity swap contracts		
Derivative asset	**0.3**	—
Derivative liability	**(0.2)**	(0.7)
	0.1	(0.7)

Forward Foreign Exchange Contracts

There were no outstanding forward foreign exchange contracts at 27 November 2016 and 29 November 2015.

There are £0.1 million of gains recognised in the hedging reserve within Other Comprehensive Income (2015: £0.2 million).

These gains were recognised in the income statement in periods during which the hedged forecast transaction affected the Consolidated Income Statement.

4.7 Financial Instruments

Accounting Policies

Financial assets and financial liabilities are recognised on the Consolidated Balance Sheet when the Group becomes a party to the contractual provisions of the instrument.

The Group 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 profit or loss.

The classification depends on the purpose for which the financial assets and liabilities were acquired. Management determine the classification of their 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 Consolidated 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 Group 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 Group 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 Consolidated 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 Consolidated 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 Consolidated Income Statement on equity investments are not reversed.

4.7 Financial Instruments (continued)

Fair Value of Financial Instruments

Financial instruments carried at fair value in the Consolidated Balance Sheet comprise the derivative assets and liabilities — see Note 4.6. The Group 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 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 (level 3).

The Group'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:

	Notes	**27 November 2016** **Carrying Value £'000**	**Fair Value £'000**	29 November 2015 Carrying Value £'000	Fair Value £'000
Financial Assets					
Cash and cash equivalents	3.9	**50.9**	**50.9**	45.8	45.8
Trade receivables	3.8	**23.0**	**23.0**	29.3	29.3
Other receivables (incl. accrued income, excl. prepayments)	3.8	**24.8**	**24.8**	20.8	20.8
Non-current financial assets	3.3	**2.6**	**2.6**	2.8	2.8
Derivative assets	4.6	**0.3**	**0.3**	—	—
Total financial assets		**101.6**	**101.6**	98.7	98.7
Financial Liabilities					
Trade payables	3.10	**(95.2)**	**(95.2)**	(63.6)	(63.6)
Accruals and other payables	3.10	**(84.2)**	**(84.2)**	(74.8)	(74.8)
Borrowings	4.2	**(59.0)**	**(59.0)**	(9.3)	(9.3)
Finance lease obligations	4.3	**(156.8)**	**(156.8)**	(163.5)	(163.5)
Derivative liabilities	4.6	**(0.2)**	**(0.2)**	(0.7)	(0.7)
Total financial liabilities		**(395.4)**	**(395.4)**	(311.9)	(311.9)

The derivative assets and liabilities relate to forward commodity swap contracts.

The Group'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 2.8% (2015: 3.0%).

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.

4.7 Financial Instruments (continued)

The Group has categorised its financial instruments as follows:

	Notes	Available-for-Sale £m	Loans and Receivables £m	Financial Liabilities at Amortised Cost £m	Financial Liabilities at Fair Value Through Profit and Loss £m	Total £m
As at 29 November 2015						
Financial Assets as per the Consolidated Balance Sheet						
Cash and cash equivalents	3.9	—	45.8	—	—	45.8
Trade and other receivables (excluding prepayments)	3.8	—	50.1	—	—	50.1
Financial assets	3.3	2.8	—	—	—	2.8
Total		2.8	95.9	—	—	98.7
Financial Liabilities as per the Consolidated Balance Sheet						
Trade payables	3.10	—	—	(63.6)	—	(63.6)
Accruals	3.10	—	—	(74.8)	—	(74.8)
Borrowings	4.2	—	—	(9.3)	—	(9.3)
Obligations under finance leases	4.3	—	—	(163.5)	—	(163.5)
Derivative liabilities	4.6	—	—	—	(0.7)	(0.7)
Total		—	—	(311.2)	(0.7)	(311.9)

	Notes	**Available-for-Sale £m**	**Loans and Receivables £m**	**Financial Liabilities at Amortised Cost £m**	**Financial Liabilities at Fair Value Through Profit and Loss £m**	**Total £m**
As at 27 November 2016						
Financial Assets as per the Consolidated Balance Sheet						
Cash and cash equivalents	3.9	**—**	**50.9**	**—**	**—**	**50.9**
Trade and other receivables (excluding prepayments)	3.8	**—**	**47.8**	**—**	**—**	**47.8**
Financial assets	3.3	**2.6**	**—**	**—**	**—**	**2.6**
Derivative assets	4.6	**—**	**—**	**—**	**0.3**	**0.3**
Total		**2.6**	**98.7**	**—**	**0.3**	**101.6**
Financial Liabilities as per the Consolidated Balance Sheet						
Trade payables	3.10	**—**	**—**	**(95.2)**	**—**	**(95.2)**
Accruals and other payables	3.10	**—**	**—**	**(84.2)**	**—**	**(84.2)**
Borrowings	4.2	**—**	**—**	**(59.0)**	**—**	**(59.0)**
Obligations under finance leases	4.3	**—**	**—**	**(156.8)**	**—**	**(156.8)**
Derivative liabilities	4.6	**—**	**—**	**—**	**(0.2)**	**(0.2)**
Total		**—**	**—**	**(395.2)**	**(0.2)**	**(395.4)**

4.8 Financial Risk Management

Overview

The Group's financial instruments comprise trade receivables and payables, borrowings and finance leases, cash and cash equivalents, and derivatives. The main financial risks faced by the Group relate

4.8 Financial Risk Management (continued)

to the risk of default by counterparties following financial transactions, the availability of funds for the Group to meet its obligations as they fall due and fluctuations in interest and foreign exchange rates.

The management of these risks is set out below.

Credit Risk

The Group's exposures to credit risk arise from holdings of cash and cash equivalents, trade and other receivables (excluding prepayments) and derivative assets. The carrying value of these financial assets, as set out in Note 4.7, represents the maximum credit exposure. No collateral is held as security against these assets.

Cash and Cash Equivalents

The Group'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.

Trade and Other Receivables

Trade and other receivables at the period end comprise mainly monies due from suppliers, which are considered of a good credit quality, as well as VAT receivables. The Group provides for doubtful receivables in respect of monies due from suppliers.

The Group has very low retail credit risk due to transactions being principally of a high volume, low value and short maturity. The Group has effective controls over this area. The Group has allowed 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 allowance for the impairment of trade and other receivables are as follows:

	Notes	**27 November 2016 £m**	29 November 2015 £m
At the beginning of the period		**(1.7)**	(3.0)
Provision for impairment of receivables		**(1.1)**	(0.9)
Uncollectable amounts written off		**(0.8)**	(0.6)
Recovery of amounts previously provided		**0.8**	2.8
At the end of the period	3.8	**(2.8)**	(1.7)

The Group has adequate cash resources to manage the short-term working capital needs of the business. In the prior year the three-year £100 million revolving facility was extended by a further two years and the amount of the facility was increased to £210 million. As at 27 November 2016, £52.5 million of the facility had been utilised. The Group regularly reviews its financing arrangements. For further details of the review please refer to the Group's Viability Statement on page 35.

The Group monitors its liquidity requirements to ensure it has sufficient cash to meet operational needs. For further details see Note 4.11.

4.8 Financial Risk Management (continued)

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date at the Balance Sheet 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
Financial Liabilities							
Trade payables	3.10	(63.6)	(63.6)	(63.6)	—	—	—
Accruals	3.10	(74.8)	(74.8)	(74.8)	—	—	—
Borrowings	4.2	(9.3)	(9.7)	(1.8)	(1.7)	(6.2)	—
Obligations under finance leases	4.3	(163.5)	(195.4)	(34.8)	(30.3)	(75.0)	(55.3)
Derivative liabilities	4.6	(0.7)	(0.7)	(0.7)	—	—	—
29 November 2015		(311.9)	(344.2)	(175.7)	(32.0)	(81.2)	(55.3)

	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**
Financial Liabilities							
Trade payables	3.10	**(95.2)**	**(95.2)**	**(95.2)**	**—**	**—**	**—**
Accruals and other payables	3.10	**(84.2)**	**(84.2)**	**(84.2)**	**—**	**—**	**—**
Borrowings	4.2	**(59.0)**	**(59.0)**	**(52.9)**	**(6.1)**	**—**	**—**
Obligations under finance leases	4.3	**(156.8)**	**(183.8)**	**(38.4)**	**(31.7)**	**(76.9)**	**(36.8)**
Derivative liabilities	4.6	**(0.2)**	**(0.2)**	**(0.2)**	**—**	**—**	**—**
27 November 2016		**(395.4)**	**(422.4)**	**(270.9)**	**(37.8)**	**(76.9)**	**(36.8)**

Market Risk

Currency Risk

The Group has foreign currency exposure in relation to its foreign currency trade payables and a portion of its cash and cash equivalents.

Foreign currency trade payables arise principally on purchases of plant and equipment, primarily in relation to the Euro, Polish Zloty and US Dollar. Bank accounts are maintained in these foreign currencies in order to minimise the Group's exposure to fluctuations in the currency relating to current and future purchases of plant and equipment.

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

	27 November 2016 £m	29 November 2015 £m
Cash and cash equivalents – EUR	**0.2**	0.4
Cash and cash equivalents – PLN	**2.0**	0.4
Trade payables at period end – EUR	**(0.2)**	(0.2)
Trade payables at period end – PLN	**(0.1)**	(0.1)
Trade payables at period end – USD	**(0.1)**	(0.2)
	1.8	0.3

4.8 Financial Risk Management (continued)

The table below shows the Group's sensitivity to changes in foreign exchange rates on its financial instruments denominated in foreign currencies.

	27 November 2016		29 November 2015	
	Increase/ (Decrease) in Income £m	Increase/ (Decrease) in Equity £m	Increase/ (Decrease) in Income £m	Increase/ (Decrease) in Equity £m
10% appreciation of the above foreign currencies	**0.2**	**—**	(0.1)	—
10% depreciation of the above foreign currencies	**(0.2)**	**—**	0.1	—

A movement of the euro, as indicated, against sterling at 27 November 2016 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 Group considered to be reasonably possible at the end of the period. The analysis assumes that all other variables remain constant.

Interest Rate Risk

The Group is exposed to interest rate risk on its floating rate interest bearing borrowings and floating rate cash and cash equivalents. The Group'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 floating rate interest bearing borrowings is not significant.

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

	27 November 2016 £m	29 November 2015 £m
Fixed Rate Instruments		
Financial assets	**50.7**	41.6
Financial liabilities	**(156.8)**	(163.4)
Variable Rate Instruments		
Financial assets	**0.2**	4.2
Financial liabilities	**(59.0)**	(9.2)

Sensitivity Analysis

An increase of 100 basis points (1.0%) in interest rates would impact equity and profit or loss by the amounts shown below. A rate of 100 basis points was assessed as being 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.

	27 November 2016 £m	29 November 2015 £m
Equity		
Result	**—**	—
Income		
Loss	**(0.6)**	—

4.9 Share Capital and Reserves

Accounting Policy

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

4.9 Share Capital and Reserves (continued)

Share Capital and Reserves

As at 27 November 2016, the number of ordinary shares available for issue under the Block Listing Facilities was 13,318,184 (2015: 14,620,308). These ordinary shares will only be issued and allotted when the shares under the relevant share incentive plan have vested or the share options under the Group's executive share ownership scheme and non-employee share options and Sharesave schemes have been exercised. They are therefore not included in the total number of ordinary shares outstanding below.

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

	Ordinary Shares Number of Shares (million)	Ordinary Shares £m	Share Premium £m
At 30 November 2014	620.9	12.5	255.1
Issues of ordinary shares	0.6	—	0.5
Reacquisition of interest in treasury shares	—	—	(0.8)
Allotted in respect of share option schemes	3.9	0.1	3.9
At 29 November 2015	625.4	12.6	258.7
Issues of ordinary shares	**3.4**	**—**	**0.6**
Disposal of treasury shares	**—**	**—**	**(2.9)**
Allotted in respect of share option schemes	**0.4**	**—**	**0.5**
At 27 November 2016	**629.2**	**12.6**	**256.9**

Included in the total number of ordinary shares outstanding above are 32,830,613 (2015: 34,770,981) ordinary shares held by the Group's employee benefit trust (see Note 4.10(b)). The ordinary shares held by the trustee of the Group's employee benefit trust pursuant to the JSOS are treated as treasury shares in the Consolidated Balance Sheet in accordance with IAS 32 "Financial Instruments: Presentation". These ordinary shares have voting rights but these have been waived by the trustee (although the trustee may vote in respect of shares that have vested and remain in the trust). The number of allotted, called up and fully paid shares, excluding treasury shares, at the end of each period differs from that used in the basic earnings per share calculation in Note 2.9 as basic earnings per share is calculated using the weighted average number of ordinary shares in issue during the period, excluding treasury shares.

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

	Notes	Treasury Shares Reserve £m	Reverse Acquisition Reserve £m	Fair Value Reserve £m
At 30 November 2014		(51.8)	(116.2)	(0.3)
Movement on derivative financial instruments	4.9(b)	—	—	(0.5)
Disposal of treasury shares	4.9(a)	0.1	—	—
Reacquisition of interests in treasury shares	4.9(a)	0.8	—	—
At 29 November 2015		(50.9)	(116.2)	(0.8)
Movement on derivative financial instruments	4.9(b)	**—**	**—**	**0.7**
Translation of foreign subsidiary		**—**	**—**	**0.3**
Disposal of treasury shares	4.9(a)	**2.9**	**—**	**—**
At 27 November 2016		**(48.0)**	**(116.2)**	**0.2**

(a) Treasury Shares Reserve

This reserve arose when the Group issued equity share capital under its JSOS, which is held in trust by the trustee of the Group's employee benefit trust. Treasury shares cease to be accounted for as

4.9 Share Capital and Reserves (continued)

such when they are sold outside the Group or the interest is transferred in full to the participant pursuant to the terms of the JSOS. Participant interests in unexercised shares held by participants are not included in the calculation of treasury shares; unvested interests of leavers which have been reacquired by the Group's employee benefit trust during the period are not accounted for as treasury shares. See Note 4.10(b) for more information on the JSOS.

The disposal of treasury shares in the current period relates to the utilisation of 1,915,040 JSOS interests to part-satisfy the 2013 LTIP award which vested in the period. These interests, which were held by the Employee Benefit Trust on an unallocated basis, were held at a cost of £1.50 per interest. A further 2,500,000 shares were issued at nominal value to satisfy the award. As the 2013 LTIP award was a nil cost share award, there was no consideration received from the participants in return for these interests and hence a loss on disposal of £2.9m was realised on the transaction. This loss was transferred to the share premium account on consolidation

(b) Other Reserves

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

The acquisition by the Company of the entire issued share capital in 2010 of Ocado Limited was accounted for as a reverse acquisition under IFRS 3 (revised). Consequently, the previously recognised book values and assets and liabilities have been retained and the consolidated financial information for the period to 27 November 2016 has been presented as if the Company had always been the parent company of the Group.

4.10 Share Options and Other Equity Instruments

Accounting Policies

Employee Benefits

Employees (including Directors) of the Group receive part of their remuneration in the form of share-based payments, whereby, depending on the scheme, employees render services in exchange for rights over shares ("equity-settled transactions") or entitlement to a future cash payment ("cash-settled transactions").

The cost of equity-settled transactions with employees is measured, where appropriate, with reference to the fair value at the date on which they are granted. Where options need to be valued an appropriate valuation model is applied. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The cost of cash-settled transactions is measured with reference to the fair value of the liability, which is taken to be the closing price of the Company's shares. Until the liability is settled it is remeasured at the end of each reporting period and at the date of settlement, with any changes in the fair value being recognised in the Consolidated Income Statement for the period. For more details please refer to Note 3.11 Provisions — Employee incentive schemes.

The cost of equity-settled transactions is recognised, along with a corresponding increase in equity, over the years in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date"). The cost of cash-settled transactions is recognised, along with a corresponding provision for the expected cash settlement, over the vesting period.

At each reporting date, the cumulative expense recognised for equity-settled transactions reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of management, will ultimately vest. Management's estimates are based on the best available information at that date.

4.10 Share Options and Other Equity Instruments (continued)

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

The Group has exposure in respect of cash-settled share-based payment transactions and share-based payment transactions with cash alternatives as defined by IFRS 2 "Share-Based Payment" in respect of bad leaver provisions in the Group's JSOS, the Cash LTIP and the Beauty MIP (see Note 3.11 Provisions). National insurance contribution (NIC) obligations arising from cash-settled schemes and HMRC unapproved equity-settled schemes are treated as if they are cash settled, regardless of the actual cash/equity determination of the scheme itself.

Share Options and Other Equity Instruments

The Group operates various employee share incentive schemes, namely the Executive Share Ownership Scheme (the "ESOS"), the Joint Share Ownership Scheme (the "JSOS"), the Sharesave Scheme, the Long Term Incentive Plan ("LTIP"), the Growth Incentive Plan ("GIP") and the share incentive plan ("SIP"). The Group also operates two cash-settled incentive schemes, the Cash LTIP and the Beauty MIP.

The total expense for the period relating to employee share-based payment plans was £7.1 million (2015: £9.9 million), of which £6.4 million (2015: £7.8 million) related to equity-settled share-based payment transactions and £0.7 million (2015: £2.1 million) as a provision for the payment of employers' NIC upon allotment of HMRC unapproved equity-settled share schemes, the Cash LTIP and the Beauty MIP (see Note 3.11 Provisions for further details).

(a) ESOS

The Group's ESOS is an equity-settled share option scheme approved by HMRC. Options have also been granted under the terms of HMRC's schedule, which is not approved. The ESOS was established by Ocado in 2001.

Under the ESOS, Ocado or the trustees of an employee trust may grant options over shares in the Company to eligible employees. The eligible employees to whom options are granted and the terms of such options will be determined by the Directors of Ocado or the trustees. The employees who are eligible to participate in the ESOS are all Ocado's Executive Directors and employees, including the employees of the Company's subsidiaries. Options are not transferable. The exercise price of options may not be less than the market value of the Company's shares on the date of grant. If the trustees or the Directors have determined that the exercise of an option will be satisfied by the issue of ordinary shares, the exercise price may also not be less than the nominal value of ordinary shares.

The Directors of Ocado or the trustees may impose a performance target and any further condition determined to be appropriate on the exercise of an option. In most cases any performance target must be measured over a period of at least three years. There are currently no options granted which are subject to performance targets that have not yet been met. The vesting period for the ESOS is three years. If the options remain unexercised after a period of ten years from the date of grant or the employee leaves the Group, the options expire (subject to a limited number of exceptions).

4.10 Share Options and Other Equity Instruments (continued)

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

	Year of Issue	**27 November 2016**	**Exercise Price (£)**	29 November 2015	Exercise Price (£)	Exercise Period
Approved						
	2006	**—**	**1.40**	2,298	1.40	31/05/09–30/05/16
	2006	**2,073**	**1.50**	4,920	1.50	30/11/09–29/11/16
	2007	**54,534**	**1.50**	59,901	1.50	31/05/10–29/11/17
	2008	**22,420**	**1.35**	24,134	1.35	31/05/11–30/05/18
	2008	**22,891**	**1.20**	28,123	1.20	30/11/11–29/11/18
	2009	**32,173**	**1.20**	34,121	1.20	31/05/12–30/05/19
	2009	**116,647**	**1.35**	140,097	1.35	02/11/12–29/11/19
	2010	**172,265**	**1.65**	191,579	1.65	30/06/13–29/06/20
	2011	**60,871**	**1.89**	78,221	1.89	19/07/14–18/07/21
	2011	**185,460**	**2.55**	200,629	2.55	14/02/14–13/02/21
	2012	**153,824**	**0.85**	186,535	0.85	27/06/15–26/06/22
	2012	**241,217**	**1.03**	297,763	1.03	21/02/15–13/02/22
	2012	**486,212**	**1.05**	571,661	1.05	09/03/15–08/03/22
	2013	**323,383**	**1.28**	532,640	1.28	05/03/16–04/03/23
	2013	**133,312**	**3.02**	156,894	3.02	08/07/16–07/07/23
	2014	**45,656**	**5.10**	53,553	5.10	05/02/17–04/02/24
	2014	**379,030**	**4.84**	415,951	4.84	17/03/17–16/03/24
	2015	**394,350**	**3.77**	459,138	3.77	13/03/18–12/03/25
	2015	**22,980**	**4.46**	22,980	4.46	01/07/18–30/06/25
	2015	**35,439**	**4.39**	45,448	4.39	10/07/18–09/07//25
	2016	**597,596**	**2.70**	—	—	16/03/19–15/03/26
	2016	**31,968**	**2.59**	—	—	15/07/19–14/07/26
Total Approved Options		**3,514,301**		3,506,586		
Non-Approved						
	2007	**50,833**	**1.50**	50,833	1.50	31/05/10–30/05/17
	2009	**122,600**	**1.20**	122,600	1.20	31/05/12–30/05/19
	2012	**119,088**	**1.05**	124,126	1.05	09/03/15–08/03/22
	2014	**11,578**	**3.27**	12,030	3.27	08/08/17–07/08/24
	2014	**29,962**	**3.36**	29,962	3.36	01/08/17–31/07/24
	2014	**23,945**	**4.84**	24,516	4.84	17/03/17–16/03/24
	2015	**30,901**	**3.77**	30,901	3.77	13/03/18–12/03/25
	2015	**18,172**	**4.46**	18,622	4.46	01/07/18–30/06/25
	2015	**18,803**	**4.39**	19,649	4.39	10/07/18–09/07/25
	2016	**152,922**	**2.70**	—	—	16/03/19–15/03/26
	2016	**63,532**	**2.59**	—	—	15/07/19–14/07/26
Total Non-Approved Options		**642,336**		433,239		
Total		**4,156,637**		3,939,825		

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

	Year of Issue	**27 November 2016 Number of Share Options**	**Exercise Price (£)**	29 November 2015 Number of Share Options	Exercise Price (£)	Exercise Period
	2009	**139,600**	**1.20**	139,600	1.20	31/05/12–30/05/19
Total options subject to performance criteria		**139,600**		139,600		

A See Alternative Performance Measures on page 194

4.10 Share Options and Other Equity Instruments (continued)

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

	27 November 2016		29 November 2015	
	Number of Share Options	**Weighted Average Exercise Price (£)**	Number of Share Options	Weighted Average Exercise Price (£)
Outstanding at the beginning of the period	**3,939,825**	**2.24**	5,158,305	1.73
Granted during the period	**899,687**	**2.69**	638,176	3.88
Forfeited during the period	**(272,688)**	**3.04**	(366,445)	2.29
Exercised during the period	**(410,187)**	**1.25**	(1,490,211)	1.18
Outstanding at the end of the period	**4,156,637**	**2.38**	3,939,825	2.24
Exercisable at the end of the period	**2,299,803**	**1.42**	2,117,541	1.32

Since the Company's Admission, the market value of the Company's shares at each option grant date was taken to be the closing mid-market price of the shares on the day prior to issuance. Prior to the Admission, the market value of the Company's shares was derived based on the market value of similar companies and by taking into account transactions with shareholders during the relevant period. The Share Valuation Office of HMRC has confirmed in correspondence that in respect of options granted prior to Admission, the exercise price was not less than the market value of the Company's shares at each option grant date.

For exercises during the period, the weighted average share price at the date of exercise was £2.84 (2015: £3.89).

In determining the fair value of the share options granted during the period, the Black–Scholes Option Pricing Model was used with the following inputs:

	27 November 2016	29 November 2015
Weighted average share price	**£2.69**	£3.88
Weighted average exercise price	**£2.69**	£3.88
Expected volatility	**0.40**	0.40
Weighted expected life — years	**3.00**	3.00
Weighted average risk-free interest rate	**0.5%**	0.8%
Expected dividend yield	**0.0%**	0.0%

Given the immaturity of the Company's share history, the expected volatility was determined by considering the historic performance of the shares of a basket of companies similar to and including the Company. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. All share awards under the ESOS are equity-settled, apart from employer's NIC due on unapproved ESOS awards which is treated as cash-settled.

4.10 Share Options and Other Equity Instruments (continued)

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

	27 November 2016			29 November 2015		
	Exercise Price (£)	**Number of Share Options**	**Weighted Average Remaining Contractual Life (years)**	Exercise Price (£)	Number of Share Options	Weighted Average Remaining Contractual Life (years)
	0.85	**153,824**	**5.5**	0.85	186,535	6.6
	1.03	**241,217**	**5.2**	1.03	297,763	6.2
	1.05	**605,300**	**5.3**	1.05	695,787	6.3
	1.20	**177,664**	**2.5**	1.20	184,844	3.4
	1.28	**323,383**	**6.3**	1.28	532,640	7.3
	1.35	**139,067**	**2.8**	1.35	164,231	3.8
	1.40	**—**	**—**	1.40	2,298	0.5
	1.50	**107,440**	**0.6**	1.50	115,654	1.5
	1.65	**172,265**	**3.6**	1.65	191,579	4.6
	1.89	**60,871**	**4.6**	1.89	78,221	5.6
	2.55	**185,460**	**4.2**	2.55	200,629	5.2
	3.02	**133,312**	**6.6**	3.02	156,894	7.6
	3.27	**11,578**	**7.7**	3.27	12,030	8.7
	3.36	**29,962**	**7.7**	3.36	29,962	8.7
	3.77	**425,251**	**8.3**	3.77	490,039	9.3
	4.39	**54,242**	**8.6**	4.39	65,097	9.6
	4.46	**41,152**	**8.6**	4.46	41,602	9.6
	4.84	**402,975**	**7.3**	4.84	440,467	8.3
	5.10	**45,656**	**7.2**	5.10	53,553	8.2
	2.59	**95,500**	**9.6**	—	—	—
	2.70	**750,518**	**9.3**	—	—	—
Outstanding at the end of the period		**4,156,637**			3,939,825	

(b) JSOS

The JSOS is an executive incentive scheme which was introduced to incentivise and retain its Executive Directors and select members of senior management of the Group (the "Participants"). It is a share ownership scheme under which the Participants and Estera Trust (Jersey) Limited, the Employee Benefit Trust Trustee, held at the balance sheet date separate beneficial interests in 32,830,613 (2015: 34,770,981) ordinary shares which represents 5.2% (2015: 5.6%) of the issued share capital of the Company. Of these ordinary shares, 79,032 (2015: 1,994,071) are held by the Employee Benefit Trust on an unallocated basis.

Nature of Interests

Interests take the form of a restricted interest in ordinary shares in the Company (the "Interest"). An Interest permits a Participant to benefit from the increase (if any) in the value of a number of ordinary shares in the Company ("Shares") over specified threshold amounts. In order to acquire an Interest, a Participant must enter into a joint share ownership agreement with the Employee Benefit Trust Trustee, under which the Participant and the Employee Benefit Trust Trustee jointly acquire the Shares and agree that once all vesting conditions have been satisfied the participant is awarded a specific number of Shares equivalent to the benefit achieved, or at their discretion, when the Shares are sold, the Participant has a right to receive a proportion of the sale proceeds insofar as the value of the Shares exceeds the threshold amount.

4.10 Share Options and Other Equity Instruments (continued)

Participants

In prior periods, Interests were acquired by the Participants under the first JSOS scheme ("JSOS1") in 32,476,700 Shares at an issue price of £1.50 per share, and the second group of Participants' JSOS scheme ("JSOS2") in 3,990,799 Shares at an issue price of £1.70 per share. In prior periods, 2,953,675 Shares in which interests of Participants have lapsed were reallocated to the third group of Participants under the JSOS scheme ("JSOS3"). For JSOS1 and JSOS2 there are four tranches, each with their own hurdle price. For JSOS3 there are two tranches, each with their own hurdle price.

JSOS1				JSOS2				JSOS3			
Tranche	Vesting Date	Hurdle Value	% of Issue Price	Tranche	Vesting Date	Hurdle Value	% of Issue Price	Tranche	Vesting Date	Hurdle Value	% of Market Price
1 (2011)	Jan 2011	£1.73	115%	1 (2012)	Jun 2012	£1.96	115%	1 (2013)	Jan 2013	£1.70	230%–265%
2 (2012)	Jan 2012	£1.91	127%	2 (2013)	Jun 2013	£2.15	127%	2 (2014)	Jan 2014	£1.80	244%–280%
3 (2013)	Jan 2013	£2.08	139%	3 (2014)	Jun 2014	£2.36	139%	—	—	—	—
4 (2014)	Jan 2014	£2.28	152%	4 (2015)	Jun 2015	£2.59	152%	—	—	—	—

For JSOS1, Participants were required to purchase their Interest for 2.0% of the issue price. For JSOS2, the price was in a range of 7.1% to 10.8%, and for JSOS3, the price was in a range of 1.47% to 1.70% of the share price at date of issue. When an Interest vests, the Employee Benefit Trust Trustee will transfer Shares to the Participant of equal value to the Participant's Interest or the Shares will be sold and the Employee Benefit Trust Trustee will account to the Participant for the balance, i.e. the difference between the sale proceeds (less expenses) and the hurdle price.

Vesting Conditions

The vesting of the Interests granted to Participants is subject to a time vesting condition, as detailed above.

The fair value of the Interests awarded under the JSOS was determined using the Black — Scholes Option Pricing Model. As per IFRS 2 "Share-Based Payment", market-based vesting conditions and the share price target conditions in the JSOS have been taken into account in establishing the fair value of the equity instruments granted. Other non-market or performance-related conditions were not taken into account in establishing the fair value of equity instruments granted; instead, these non-market vesting conditions are taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount so that ultimately the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that will eventually vest.

In determining the fair value of the Interests granted, the Black — Scholes Option Pricing Model was used with the following inputs:

JSOS1	Tranche 1	Tranche 2	Tranche 3	Tranche 4
Weighted average share price	£1.35	£1.35	£1.35	£1.35
Weighted average exercise price	£1.73	£1.91	£2.08	£2.28
Expected volatility	0.25	0.25	0.25	0.25
Weighted expected life — years	0.91	1.91	2.91	3.91
Risk-free interest rate	3.5%	3.5%	3.5%	3.5%
Expected dividend yield	0.0%	0.0%	0.0%	0.0%

JSOS2	Tranche 1	Tranche 2	Tranche 3	Tranche 4
Weighted average share price	£1.70	£1.70	£1.70	£1.70
Weighted average exercise price	£1.96	£2.15	£2.36	£2.59
Expected volatility	0.25	0.25	0.25	0.25
Weighted expected life — years	1.0	2.0	3.0	4.0
Risk-free interest rate	3.5%	3.5%	3.5%	3.5%
Expected dividend yield	0.0%	0.0%	0.0%	0.0%

4.10 Share Options and Other Equity Instruments (continued)

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

As the Interests in JSOS3 were reallocated from lapsed Interests in JSOS1 and JSOS2, the fair value of those Interests had been calculated in prior periods using the inputs disclosed in the tables above.

Details of the movement in the number of Interests in Shares during each period are as follows:

	27 November 2016		29 November 2015	
	Number of Interests in Shares	**Weighted Average Exercise Price (£)**	Number of Interests in Shares	Weighted Average Exercise Price (£)
Outstanding at the beginning of the period	**32,776,910**	**1.99**	33,357,307	2.00
Forfeited during the period	**—**	**—**	(540,817)	2.29
Exercised during the period	**(25,329)**	**2.05**	(39,580)	2.32
Outstanding at the end of the period	**32,751,581**	**1.99**	32,776,910	1.99
Exercisable at the end of the period	**32,751,581**	**1.99**	32,776,910	1.99

(c) Non-Employee Share Options

Options to subscribe for ordinary shares and convertible preference shares have been granted by Ocado Limited to non-employees. These options are equity-settled, and do not have any vesting criteria. As a result of the Group's restructuring in 2014, these options are now held over ordinary shares in Ocado Group plc.

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

	27 November 2016		29 November 2015		
	Number of Share Options	**Exercise Price (£)**	Number of Share Options	Exercise Price (£)	Exercise Period
January 2004	**435,300**	**1.03**	435,300	1.03	03/01/04–03/01/18
Outstanding at the end of the period	**435,300**		435,300		

There was no movement in the number of non-employee share options outstanding in the period (2015: £nil). All non-employee share options are exercisable at the end of the period.

The weighted average remaining contractual lives for outstanding non-employee share options are as follows:

	27 November 2016			29 November 2015		
	Exercise Price (£)	**Number of Share Options**	**Weighted Average Remaining Contractual Life (years)**	Exercise Price (£)	Number of Share Options	Weighted Average Remaining Contractual Life (years)
	1.03	**435,300**	**1.1**	1.03	435,300	2.1
Outstanding at the end of the period		**435,300**			435,300	

(d) Sharesave Scheme

In 2010 the Group launched the Ocado Group Sharesave Scheme ("SAYE"). This is an HMRC approved scheme and is open to any person that was an employee or officer of the Group at the launch date. Under the scheme, members save a fixed amount each month for three years. At the end of the three-year period they are entitled to use these savings to buy shares in the Company at a price

4.10 Share Options and Other Equity Instruments (continued)

which is determined at launch date; 85% of the market value in the case of the Group's first Sharesave Scheme ("SAYE1") and 90% of the market value in the case of the Group's Sharesave Schemes SAYE2, SAYE3, SAYE4 and SAYE5.

At 27 November 2016 employees of the Company's subsidiaries held 2,950 (2015: 2,273) contracts in respect of options over 6,260,286 (2015: 3,549,479) shares. Details of the movement in the number of Sharesave options outstanding during each period are as follows:

	27 November 2016		29 November 2015	
	Number of Share Options	**Weighted Average Exercise Price (£)**	Number of Share Options	Weighted Average Exercise Price (£)
Outstanding at the beginning of the period	**3,549,479**	**3.16**	3,789,044	1.67
Granted during the period	**4,582,171**	**2.28**	2,621,201	3.24
Forfeited during the period	**(1,864,633)**	**3.17**	(458,162)	3.02
Exercised during the period	**(6,731)**	**2.31**	(2,402,604)	0.91
Outstanding at the end of the period	**6,260,286**	**2.51**	3,549,479	3.16
Exercisable at the end of the period	**821,345**	**3.01**	18,607	2.82

(e) Long Term Incentive Plan

In 2013, the Group introduced an equity-settled long term incentive plan ("LTIP") as approved by the Remuneration Committee and shareholders, under which shares are conditionally awarded to Executive Directors and select members of senior management. The number of awards issued are calculated based on a percentage of the participants' salaries and will vest at the end of a period of three years from the grant date. The final number and proportion of awards expected to vest will depend on achievement of certain performance conditions. For the 2014 LTIP, the performance conditions are the Group's revenue and earnings per share for the financial year ended 27 November 2016. For both the 2015 LTIP and the 2016 LTIP, there are four equally weighted performance conditions, which are operational efficiency and capital efficiency metrics related to the retail business and the platform business, the Group's retail business revenue and Group's retail business earnings before tax for the financial year ending December 2017, and financial year ending December 2018 respectively.

The number of awards issued, adjusted to reflect the achievement of the performance conditions, will then vest during 2016 for the 2013 LTIP, 2017 for the 2014 LTIP, 2018 for the 2015 LTIP and 2019 for the 2016 LTIP. Full vesting will only therefore occur where exceptional performance levels have been achieved and significant shareholder value created. An award will lapse if a participant ceases to be employed within the Group before the vesting date.

A summary of the status of the LTIP as at 27 November 2016 and changes during the year is presented below:

	Number of Share Awards 27 November 2016	Number of Share Awards 29 November 2015
Outstanding at the beginning of the period	**6,076,621**	5,087,848
Granted during the period	**1,490,029**	988,773
Exercised during the period	**(4,415,040)**	—
Outstanding at the end of the Period	**3,151,610**	6,076,621

There were no awards exercisable as at 27 November 2016 (2015: None).

The Group recognised an expense of £2.8 million (2015: £6.1 million) related to these awards in the Consolidated Income Statement during the year. The expectation of meeting the performance criteria, based upon internal budgets and forecasts, was taken into account when calculating this expense.

4.10 Share Options and Other Equity Instruments (continued)

(f) Chairman's Share Matching Award

In 2013, the Group introduced the equity-settled Chairman's Share Matching Award, under which a one-off award of restricted shares was awarded to the Chairman, Lord Rose, on assuming the role of Chairman.

The award condition is based on a personal investment of a minimum of 400,000 shares and continued membership of the Board. The award vested in the current period, being three years from when the award was approved by the shareholders. There were no performance criteria to which vesting was subject.

These shares are restricted from being sold while he is on the Board and the shares are not allowed to be sold until the first anniversary of his ceasing to be a member of the Board.

A summary of the status of this Chairman's Share Matching Award as at 27 November 2016 and changes during the year is presented below:

	Number of Share Awards 27 November 2016	Number of Share Awards 29 November 2015
Outstanding at the beginning of the period . . .	**452,284**	452,284
Exercised during the period	**(452,284)**	—
Outstanding at the end of the period	**—**	452,284

The Group recognised an expense of £0.1 million (2015: £0.4 million) related to this award in the Consolidated Income Statement during the year.

(g) Growth Incentive Plan

In 2014, the Group introduced an equity-settled growth incentive plan ("GIP"), under which nil cost shares were conditionally awarded to certain Executive Directors.

The final number and proportion of awards expected to vest will depend on achievement of a performance condition, being the growth in the Company's share price relative to the growth in the FTSE 100 Share Index over a five-year performance period.

These awards will vest in 2019. An award will lapse if a participant ceases to be employed within the Group before the vesting date.

Performance will be assessed based on the three-month average share price of the Company and the FTSE 100 Share Index at the end of the performance period in comparison to the three-month average share price of the Company and the FTSE 100 Share Index prior to the start of the performance period.

In determining the fair value of the awards granted, a unique Monte Carlo model was used with the following inputs:

Weighted average share price	**£3.19**
Value of FTSE 100 index	**6,389.25**
Expected correlation	**29%**
Expected volatility of Company	**40%**
Expected volatility of FTSE 100 index . . .	**16%**
Weighted expected life — years	**5.0**
Risk-free rate	**1.96%**
Expected dividend yield	**0%**
Valuation model	**Monte Carlo Pricing**

4.10 Share Options and Other Equity Instruments (continued)

Expected correlation was determined with reference to the historic share price correlation of the shares in the Company and the FTSE 100 Index over a period commensurate with the terms of the award (i.e. five years).

Expected volatility of the Company was determined by comparing the Company to others of a similar size or which operate in a similar industry. Expected volatility of the FTSE 100 Index was determined by reference to its historic volatility over a period commensurate with the terms of the award (i.e. five years). Volatility is a key estimate in determining the fair value of the GIP award, as the overall charge is most sensitive to changes in this assumption. Management have had regard to an appropriate range of alternative volatility assumptions, and concluded that a change in the volatility within this range would not have a material impact on the financial statements.

The use of the Monte Carlo model and calculation of the associated input parameters requires judgement. Therefore management obtained professional advice to assist in determining the fair value of the awards granted.

A summary of the GIP as at 27 November 2016 and changes during the year is presented below:

	Number of Share Awards
Outstanding at 30 November 2014	6,000,000
Granted during the year	—
Outstanding at 29 November 2015	6,000,000
Granted during the year	—
Outstanding at 27 November 2016	**6,000,000**

There were no awards exercisable as at 27 November 2016 (2015: None).

The Group recognised an expense of £1.2 million (2015: £1.3 million) related to these awards in the Consolidated Income Statement during the year. The expectation of meeting the performance criteria was taken into account when calculating this expense.

(h) Share Incentive Plan

In 2014, the Group introduced the Ocado Share Incentive Plan ("SIP"). This HMRC approved scheme provides all employees, including Executive Directors, the opportunity to receive and invest in Company shares. All SIP shares are held in a SIP Trust, administered by Yorkshire Building Society.

There are two elements in the plan — the Buy As You Earn ("BAYE") arrangement and the Free Share Award. Under the BAYE, participants can purchase shares in the Company ("Partnership Shares") each month using contributions from pre-tax pay, subject to an upper limit. For every seven shares purchased, the Company gifts the participant one free share ("Matching Shares").

Under the Free Shares Award, shares are given to eligible employees, as a proportion of their annual base pay, subject to a maximum. Eligible employees are those with six months' service as at the grant date.

For Partnership Shares, eligible employees are those with three months' service. Partnership shares can be withdrawn from the Plan Trust at any time; however, Matching Shares and Free Shares are subject to a three-year holding period, during which continuous employment within the Group is required. The Matching Shares will be forfeited if any corresponding Partnership Shares are removed from the Plan Trust within this three-year period, or if the participant leaves Ocado.

4.10 Share Options and Other Equity Instruments (continued)

A summary of the status of the SIP as at 27 November 2016 and changes during the year is presented below:

	Partnership Shares	Matching Shares	Free Shares	Number of Share Awards Total
Outstanding at 30 November 2014	52,714	7,189	383,089	442,992
Awarded during the period	139,790	19,968	452,018	611,776
Forfeited during the period	—	(2,661)	(88,642)	(91,303)
Released during the period	(19,346)	(46)	(2,459)	(21,851)
Outstanding at 29 November 2015	173,158	24,450	744,006	941,614
Unrestricted at 29 November 2015	173,158	—	654	173,812

	Partnership Shares	**Matching Shares**	**Free Shares**	**Number of Share Awards Total**
Outstanding at 29 November 2015	**173,158**	**24,450**	**744,006**	**941,614**
Awarded during the period	**195,565**	**27,856**	**693,341**	**916,762**
Forfeited during the period	**—**	**(6,278)**	**(132,914)**	**(139,192)**
Released during the period	**(50,429)**	**(852)**	**(10,703)**	**(61,984)**
Outstanding at 27 November 2016	**318,294**	**45,176**	**1,293,730**	**1,657,200**
Unrestricted at 27 November 2016	**318,294**	**—**	**1,909**	**320,203**

In the year, the Group recognised an expense of £0.6 million (2015: £0.3 million) related to these awards. The expectation of meeting the holding period was taken into account when calculating this expense.

4.11 Capital Management

The Board's objective is to maintain an appropriate balance of debt and equity financing to enable the Group 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[A]. Net debt is calculated as total debt (obligations under finance leases and borrowings as shown in the Consolidated Balance Sheet), less cash and cash equivalents. The Group's net assets at the end of the period were £262.4 million (2015: £241.9 million) and it had net debt of £164.9 million (2015: £127.0 million).

The main areas of capital management revolve around working capital management and compliance with externally imposed financial covenants. The Group's objectives when managing capital are to safeguard its ability to continue as a going concern and balance the needs of the Group to grow, whilst operating with sufficient headroom within its bank covenants.

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 Group's approach to capital management during the period.

In the previous year the three-year £100 million revolving facility was extended by a further two years and the amount of the facility was increased to £210 million. As at 27 November 2016, £52.5 million of the facility had been utilised. The Group regularly reviews its financing arrangements. Throughout the

A See Alternative Performance Measures on page 194

4.11 Capital Management (continued)

period, the Group has complied with all covenants imposed by lenders. In addition, a key aspect of capital management was the strategic operating agreement with Morrisons and the operation of MHE JVCo, a company jointly owned with Morrisons, discussed in Note 5.4.

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

At the Balance Sheet date, the Group's undrawn facilities and cash and cash equivalents were as follows:

	Notes	**27 November 2016 £m**	29 November 2015 £m
Total facilities available		**400.6**	409.6
Facilities drawn down†	4.2	**(215.8)**	(172.8)
Undrawn facilities at end of period‡		**184.8**	236.8
Cash and cash equivalents gross of drawn overdraft facility	3.9	**50.9**	45.8
		235.7	282.6

† In the prior year the three-year £100 million revolving facility was extended by a further two years and the amount of the facility was increased to £210 million.

‡ The undrawn facility at the end of the period, includes transaction costs. If transaction costs are excluded, then the undrawn facility is £183.6 million.

As at 27 November 2016, £52.5 million of the facility had been utilised. Transaction costs of £1.2 million relating to the facility amendment have been capitalised. The Group regularly reviews its financing arrangements.

Section 5 — Other notes

5.1 Subsidiaries

In accordance with section 409 of the Companies Act 2006, a full list of related undertakings, the country of incorporation and the effective percentage of equity owned, as at 27 November 2016 is disclosed below:

Name	Principal Activity	Share Class	Proportion of Share Capital Held (direct/indirect)	Country of Incorporation
The following companies are registered at Titan Court, 3 Bishops Square, Hatfield Business Park, Hatfield, Hertfordshire, AL10 9NE:				
Ocado Holdings Limited	Holding company	Ordinary shares	100%	England and Wales
Ocado Retail Limited	Retail	Ordinary shares	100%	England and Wales
Ocado Innovation Limited	Technology	Ordinary shares	100%	England and Wales
Ocado Operating Limited	Logistics and Distribution	Ordinary shares	100%	England and Wales
Ocado Central Services Limited	Business Services	Ordinary shares	100%	England and Wales
Ocado Innovation Holdings Limited	Non-trading company	Ordinary shares	100%	England and Wales
Jalapeno Partners Limited	Non-trading company	Ordinary shares	100%	England and Wales
Last Mile Technology Limited	Non-trading company	Ordinary shares	100%	England and Wales
MHE JVCo Limited	Trading company	£ 1.00 “B” shares	50%	England and Wales
The following companies are registered at Aquarius House, Bessemer Road, Welwyn Garden City, Hertfordshire, AL7 1HH:				
Speciality Stores Limited	Trading company	Ordinary shares	100%	England and Wales
Paws & Purrs Limited	Retail	Ordinary shares	100%	England and Wales
Marie Claire Beauty Limited	Retail	Ordinary shares	98%	England and Wales
The following company is registered at 2 Grand Canal Square, Grand Canal Harbour, Dublin 2, Ireland:				
Ocado Information Technology Limited	Intellectual property	Ordinary shares	100%	Republic of Ireland
The following company is registered at ul. Rakowicka 7, 31-511, Krakow, Poland:				
Ocado Polska Sp. Z.o.o.	Technology	Ordinary shares	100%	Poland
The following company is registered at Av. Josep Tarradellas 38, Planta 8a, 08029, Barcelona, Spain:				
Ocado Spain S.L.U.	Technology	Ordinary shares	100%	Spain
The following company is registered at 1209 Orange Street, Wilmington, Delaware 19801, United States of America:				
Oxford US LLC	Non-trading company	Ordinary shares	100%	United States of America
The following company is registered at 200 Bay Street, Suite 3800, Royal Bank Plaza, South Tower, Toronto, Ontario, M5J 2Z4, Canada:				
Pompano Canada Inc.	Non-trading company	Common	100%	Canada
The following company is registered at Paneltex House, Somerden Road, Hull, HU9 5PE:				
Paneltex Limited	Manufacturing	Ordinary shares	25%	England and Wales

In accordance with the exemption under Section 479A of the Companies Act the standalone financial statements for a subsidiary, Paws & Purrs Limited, will not be audited for the year ended 27 November 2016, but are included in the Group’s consolidated financial statements in the period.

The Group has effective control over the financial and operating activities of the Ocado Cell in Atlas Insurance PCC Limited, an insurance company incorporated in Malta and therefore consolidates the Ocado Cell in its financial statements in accordance with IFRS 10 “Consolidated Financial Statements”. The Group uses the Ocado Cell to provide self-insurance for its vehicle fleet and public and product liability claims.

5.2 Commitments

Capital Commitments

Contracts placed for future capital expenditure but not provided for in the financial statements are as follows:

	27 November 2016 £m	29 November 2015 £m
Land and buildings	**2.5**	3.4
Property, plant and equipment	**31.9**	18.9
Total capital expenditure committed at the end of the period	**34.4**	22.3

Of the total capital expenditure committed at the current period end, £25.7 million relates to new CFCs, £0.8 million to existing CFCs, £1.7 million to fleet costs and £2.0 million relates to technology related projects.

Operating Lease Commitments

The Group leases a number of offices, facilities and equipment under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights.

At 27 November 2016 the ageing profile of future aggregate minimum lease payments under non-cancellable operating leases is as follows:

	27 November 2016 £m	29 November 2015 £m
Due within one year	**20.3**	14.2
Due after one year but less than five	**75.2**	44.8
Due after five years	**280.2**	136.7
Total commitment	**375.7**	195.7

5.3 Contingent Liabilities

The Group has contingent liabilities in respect of legal claims arising in the ordinary course of business, all of which the Group expects will be either covered by its insurances or will not be material in the context of the Group's financial position.

5.4 Related Party Transactions

Key Management Personnel

Only the Executive and Non-Executive Directors are recognised as being key management personnel. It is the Board which has responsibility for planning, directing and controlling the activities of the Group. The key management compensation is as follows:

	27 November 2016 £m	29 November 2015 £m
Salaries and other short-term employee benefits	**3.2**	3.2
Share-based payments	**3.1**	5.6
	6.3	8.8

Further information on the remuneration of Directors and Directors' interests in ordinary shares of the Company is disclosed in the Directors' Remuneration Report on pages 76 to 115.

5.4 Related Party Transactions (continued)

Other related party transactions with key management personnel made during the period related to the purchase of professional services and amounted to £900 (2015: £6,000). All transactions were on an arm's length basis and no period end balances arose as a result of these transactions. At the end of the period, there were no amounts owed by key management personnel to the Group (2015: £nil). There were no other material transactions or balances between the Group and its key management personnel or members of their close family.

Investment

The following transactions were carried out with Paneltex Limited, a company incorporated in the UK in which the Group holds a 25% interest. Further information on the Group's relationship with Paneltex Limited is provided in Note 3.3.

	52 Weeks Ended 27 November 2016 £m	52 Weeks Ended 29 November 2015 £m
Purchase of goods		
— Plant and machinery	**—**	0.1
— Consumables	**0.5**	0.5
Sale of goods	**0.1**	—
	0.6	0.6

Indirect transactions, consisting of the purchase of plant and machinery through some of the Group's finance lease counterparties, were carried out with Paneltex Limited to the value of £11.8 million (2015: £12.2 million). At period end, the Group owed Paneltex £57,000 (2015: £31,000).

Joint Venture

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

	27 November 2016 £m	29 November 2015 £m
Capital contributions made to MHE JVCo	**1.1**	—
Dividend received from MHE JVCo	**8.4**	8.1
Reimbursement of supplier invoices paid on behalf of MHE JVCo	**4.9**	6.1
Lease of assets from MHE JVCo	**3.1**	3.0
Capital element of finance lease instalments paid to MHE JVCo	**13.8**	14.3
Interest element of finance lease instalments accrued or paid to MHE JVCo	**5.8**	6.2

During the period the Group paid lease instalments (including interest) of £19.6 million (2015: £20.5 million) to MHE JVCo.

Of the £19.6 million, £10.7 million (2015: £10.6 million) was recovered directly from Morrisons in the form of Other Income and a further £8.4 million (2015: £8.1 million) was received from MHE JVCo by way of a dividend. The remaining £0.5 million (2015: £1.8 million) represents capital expenditure requirements of MHE JVCo for which no additional funding was required from Ocado. The net result is the termination of £13.8 million of MHE JVCo debt during the period (2015: £14.3 million) with no corresponding net cash outflow.

In the current period, the Group made capital contributions of £1.1 million to MHE JVCo (2015: £nil).

5.4 Related Party Transactions (continued)

Included within trade and other receivables is a balance of £5.3 million owed by MHE JVCo (2015: £5.6 million). £0.8 million of this relates to a finance lease accrual which is included within other receivables (2015: £1.0 million). £4.5 million (2015: £4.6 million) relates to capital recharges.

Included within trade and other payables is a balance of £3.8 million owed to MHE JVCo (2015: £1.0 million).

Included within obligations under finance leases is a balance of £108.7 million owed to MHE JVCo (2015: £119.5 million).

No other transactions that require disclosure under IAS 24 “Related Party Disclosures” 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 Group since 27 November 2016.

INDEPENDENT AUDITORS' REPORT

to the members of Ocado Group plc

Report on the group financial statements

Our opinion

In our opinion, Ocado Group plc's group financial statements (the "financial statements"):

- give a true and fair view of the state of the group's affairs as at 29 November 2015 and of its profit and cash flows for the 52 week period (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 and Article 4 of the IAS Regulation.

What we have audited

The financial statements, included within the Annual Report and Accounts (the "Annual Report"), comprise:

- the Consolidated Balance Sheet as at 29 November 2015;
- the Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the period then ended;
- the Consolidated Statement of Cash Flows for the period then ended;
- the Consolidated 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.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

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

Our audit approach

Overview

Context

Our 2015 audit was planned and executed having regard to the fact that the operations of Ocado were largely unchanged from the prior year albeit the level of capital expenditure, particularly in relation to developing the platform, continued to be significant. In addition we had regard to the continued tough trading environment in the UK grocery market, whilst noting that Ocado continued to grow its customer base and revenues, and the potential impact this might have on cash flow projections used to support asset carrying values. In light of this our overall audit approach in terms of scoping and areas of focus was largely unchanged with continued scrutiny over the development and technical feasibility of key capital projects and the assessed economic return that these were anticipated to achieve.

- Overall group materiality: £4.5m which represents 0.41% of revenue.
- The complete financial information of all active trading companies located in the UK, whose results taken together account for all material balances and line items within the consolidated financial statements, were audited by the UK engagement team.
- The UK engagement team also audited the group's joint venture with Wm Morrisons Supermarkets Plc ("Morrisons").
- Commercial income.
- Capitalisation of internal development costs.
- Share based payments.
- Deferred tax asset.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Commercial income As described in the Audit Committee Report on page 64 and in the critical accounting estimates and judgements and accounting policies sections in the notes to the accounts (page 135), Ocado has three main streams of commercial income; promotional support; media income; and volume rebates. This remains an area of focus due to the judgments involved and the quantum of income recorded under these arrangements and its significance in relation to the result for the period. The amount to be recognised in the income statement for elements of commercial income requires management to apply judgement based on the contractual terms in place with suppliers and estimates of amounts the group is entitled to where transactions span the financial period- end. ***Promotional support and media income*** Promotional support and media income arrangements are typically structured to last for a four week duration and are settled with suppliers within a short period following the relevant service or promotion having been fulfilled. This income stream involves high volume, lower value arrangements and requires limited judgement or estimation by management in determining the amount that the group is entitled to. Notwithstanding the limited judgement involved, the magnitude of this income is highly material. Our focus was therefore whether an arrangement or agreement for the promotional support and media income recognised existed, whether the relevant promotion or media advertising had taken place and whether the income recognised was recorded in the appropriate period. ***Volume rebates*** Volume rebates is the stream of commercial income which, in our view, involves the most judgement. Volume rebates are earned both on supply arrangements managed by Waitrose (as the group's supply partner) under the Waitrose sourcing agreement referred to on page 12 and on arrangements with direct suppliers to Ocado. Rebates earned under Waitrose managed supply arrangements are material to the group's results whilst rebates earned from direct suppliers are becoming more significant. Entitlement to income under Waitrose supply arrangements is based on the level of purchasing activity made by Ocado	***Promotional support and media income*** Our approach, specifically in relation to promotional income, was underpinned by testing key system controls, including those used to determine the amount of items sold under the terms of a supplier funded promotion arrangement. We determined that the testing of these controls provided us with audit evidence that promotional support income had been recorded appropriately and in the correct period. Our testing for promotions also included checking the computation of the amounts billed to suppliers. We additionally reconciled the total value of promotion income recorded in Ocado's "Promotions" system for the period to the total value recognised in the general ledger and found no material reconciling items. We independently confirmed the terms of a sample of individual promotion and media agreements, covering both the duration of the promotion / campaign and the quantum of promotional support per unit sold / the price charged for the campaign, directly with a range of suppliers, including requesting confirmation of items invoiced in the period and for amounts accrued at the period end, checking that the amount recognised was recorded in the correct period based on the suppliers' confirmation of details of the period the funding related to. Similar to promotional income, we reconciled the total value of amounts recorded in Ocado's "Media" booking system to the total value of media income recorded in the financial statements and found no material reconciling items. We also selected a sample of individual media adverts in the period and checked that income relating to these adverts was recognised in the period. ***Volume rebates*** In relation to income due from Waitrose under the terms of their supply arrangements, we visited the Waitrose head office and met with the members of the Waitrose Commercial Finance team responsible for determining rebates due to Ocado. We obtained and read a sample of supplier contracts negotiated by Waitrose and checked that there was an accrual for amounts due to Ocado in relation to these agreements, the accuracy of which we tested as set out

Area of focus	How our audit addressed the area of focus
under the Waitrose sourcing agreement and the specific contractual terms negotiated with various suppliers by Waitrose. As Waitrose negotiates and agrees the contracts with suppliers, Ocado has to determine income to be recorded based on interim payments received during the year and information provided by Waitrose in relation to amounts due at the period end. The key judgement that we therefore focus on in the calculation of Ocado's share of rebates due from Waitrose is the estimate of amounts to be accrued at the period end, based on information provided by Waitrose.	below. We also considered how Waitrose determine their overall supplier volume rebate income and the associated Ocado share of this. We agreed a sample of amounts invoiced by Ocado to Waitrose during the period by testing the settlement of these amounts by Waitrose. With respect to accrued income recognised as due from Waitrose at the period end, we obtained a direct confirmation from Waitrose at the period end of the data used by Ocado to estimate the year end accrued income generated from supplies sourced through Waitrose. We reperformed the calculation undertaken by Ocado using this data to determine the year end accrued income and concluded the amounts recognised were reasonable. We also assessed the historical accuracy of estimates made by Ocado in relation to the estimate of the full year amount due to them from Waitrose noting that historic estimates in the last two years had proved highly accurate, based on amounts finally invoiced and settled. In respect of income due under direct supply arrangements we circularised a number of suppliers to confirm directly the amount of accrued income that Ocado should recognise at the year end. We received confirmations from all suppliers circularised with no issues of note arising. ***Overall commercial income*** In relation to the overall amounts recognised for all material commercial income streams, we analysed the total amounts recognised quarterly for each stream, and compared these amounts to the equivalent month in the previous year, to identify whether there were any unusual trends of significance in the amounts or timing of commercial income recognised in each period. No such items were identified.
Capitalisation of internal development costs As explained on pages 20 and 22, Ocado develops a significant amount of the software used to operate the systems and technology used in the business and are further developing additional technology to increase the efficiency and capacity of existing operations, and to support future international expansion. In the current period, as set out in note 3.1 £29.7m of internal development costs have been capitalised within Intangible Assets and Property, Plant and Equipment. We focussed on this area due to the size of the internal costs capitalised, and the fact that there is judgement involved in assessing whether the	We obtained a breakdown, by value, of all individual internal development projects capitalised in the period and reconciled this to the amounts recorded in the general ledger, identifying no reconciling differences. We tested all projects where capitalised costs were in excess of £250,000, together with a sample of smaller projects from the remaining population, as follows: • We obtained explanations from management of why the project was considered to be capital in nature, in terms of how the specific requirements of the

Area of focus	How our audit addressed the area of focus
criteria set out in the accounting standards required for capitalisation of such costs had been met, particularly: • The technical feasibility of the project; and • The likelihood of the project delivering sufficient future economic benefits. We had particular regard to the fact that the group has continued to invest in new technology to support future expansion both in the UK and internationally, and therefore we focussed on whether the economic benefits of the various projects under development supported the amounts capitalised. This specifically included: • Projects relating to the re-platforming of the group's technology to enable it to improve its ability to develop and operate and to expand internationally, where the economic benefit of a successful launch is only achieved in the longer term and is inherently, therefore, more judgemental, and • Projects where there are significant judgements made as to the level of future economic benefits due to the innovative nature of some of the technology being developed. As part of our work we also focussed on management's judgements regarding whether capitalised costs were of a developmental rather than research nature (which would result in the costs being expensed rather than capitalised); and whether costs, including employment (payroll) costs, were directly attributable to relevant projects. In light of the development of new software and systems, we also focussed on whether the carrying value of existing capitalised software or systems was impaired.	relevant accounting standards and other guidance, most notably of IAS 38, IAS 16 and SIC 32 (Web Site Costs) were met. We also conducted interviews with individual project development managers responsible for the projects selected to corroborate these explanations and to obtain an understanding of the specific projects to enable us to independently assess whether the projects met all the criteria for capitalisation set out in accounting standards. We found the explanations obtained from individual project managers to be consistent with those obtained from management, our understanding of developments in the business and supported management's assessment that the costs met the relevant capitalisation criteria. • We challenged both management and the relevant development project managers as to whether the development of new software or systems superseded or impaired any of the existing assets on the balance sheet. We noted that, as disclosed in notes 3.1 and 3.2 an impairment charge of £1.8m was recorded in this regard, but did not identify any further indicators of impairment. We also applied our own understanding of both new and existing projects and considered whether, in our view, there were any projects where the software is no longer in use or its life was shortened by any development activity. We found no such items. To determine whether costs were directly attributable to projects, we obtained listings of hours worked on individual projects and selected a sample of the individual hours recorded and met with the project manager of the relevant project to obtain an understanding of the project being worked upon and to confirm that the employee selected for testing was involved on the project and to ascertain the nature of the work they had been performing. We also checked the hours charged equated to the value of costs capitalised, by applying the standard charge out rate per employee to the timesheet hours, without exception. We also tested the standard hourly rates, referred to above, that had been applied to the hours identified as appropriate for capitalisation by reconciling these to the hourly rate equivalent of the average salary of Ocado's technology development team. We agreed that the rates applied reflected an appropriate amount of

Area of focus	How our audit addressed the area of focus
Share based payments The group has in place a number of different share incentive schemes which are accounted for in accordance with IFRS 2 “Share based payments”. These range from non-complex ‘vanilla’ share option plans to more complex Executive Director long term incentive schemes, details of which are explained in note 4.10. The accounting treatment differs for each scheme depending on the details of the individual scheme. For certain schemes, namely the “Growth Incentive Plan” and the “Long Term Incentive Plans”, determining the appropriate accounting charge for the period requires various judgments to be made including the likelihood of specific performance criteria being met (e.g., ‘Revenue’ and ’Earnings Before Interest and Tax’ targets and share price growth) which determines whether an award will crystallise, and the level of payout that will be achieved. Whilst there were no new schemes introduced during the year there were a number of grants under pre-existing schemes. We focussed on understanding the details of each grant and the associated accounting in relation to such grants as well as existing schemes where measurement criteria, impacting the accounting, needed to be reassessed in the year.	internal development employee costs in each instance with no significant matters arising. For all new grants we discussed with management the accounting that they had applied, and together with our own independent evaluation of the contractual documentation, evaluated whether the accounting charge (where applicable) and disclosures in relation to each scheme were in accordance with IFRS 2, and determined that the treatment and disclosures relating to the schemes was consistent with the accounting requirements. We also re-performed the related calculations to check their arithmetical accuracy with no exceptions identified. Where the accounting charge to be recorded was dependent on judgement around the achievement of various performance criteria, including an assessment of achieving future targets, we challenged management’s assumptions and performed sensitivity tests around the projected achievement levels. We also compared the future projections used by management, to determine the accounting charge, to the group’s detailed business plans and forecasts and external market data, which we found to be materially consistent. We also had regard to the level of historical accuracy of management’s projections. In light of the above, we found that the judgements made by management were reasonable and that the charge booked was not materially sensitive to what we considered to be a range of realistically possible alternative outcomes as to the levels of performance attained.
Deferred tax asset As set out in note 2.8 Ocado recognise a deferred tax asset of £10m. This was an enhanced area of focus in the current year as the group now has recorded a profit in each of the last two years raising the prospect of potentially recognising a larger element of available tax losses as an asset on the balance sheet. Determining an appropriate level of deferred tax asset to recognise requires some judgement particularly in relation to the assessed future profitability of the business and the risk adjustment factors applied to these profit projections by management as described on page 139.	We obtained the detailed tax computation produced for the group and tested the computation of accelerated capital allowances and tax losses available to offset against current and future taxable profits. In addition we tested the arithmetic accuracy of the model used by management to derive the level of deferred tax asset to recognise as well as validating that the inputs to the model were appropriate and consistent, where appropriate, with projections used elsewhere in the business. No issues of note arose from this work. We further considered the appropriateness of the risk adjustment factor applied to the calculation having regard to the continued profitability of the business and the wider challenges and opportunities facing Ocado as set out in the strategic report on pages 14 and

Area of focus	How our audit addressed the area of focus
	15 and CEO's review on pages 24 to 29. On balance we concluded that the level of risk adjustment was appropriate given the current and forecast trading performance of the business, the market place it operates in and the current status of international expansion plans.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the group, the accounting processes and controls, and the industry in which the group operates.

As described in the Strategic Report, specifically on pages 9 to 11, the group's main trading activities are grocery retailing and the development and monetisation of intellectual property and technology for the online retailing, logistics and distribution of grocery and consumer goods, which is all currently undertaken in the UK.

The group's retailing, logistics and technology development operations are held in separate legal entities. The scope of our audit includes all active trading companies located in the UK, whose results taken together account for all material balances and line items within the consolidated financial statements. All entities are managed from one central location in the UK and all audit work is undertaken by the UK engagement team.

The group structure also includes a Joint Venture arrangement with Morrisons related to the provision of warehouse equipment in CFC2.The results of this entity are also audited by the UK engagement team. No audit work was deemed necessary in relation to the group's captive insurer in Malta or development operation in Poland as the results of these entities are immaterial to the overall consolidated financial statements.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall group materiality	£4.5m (2014: £4m).
How we determined it	0.41% of revenue.
Rationale for benchmark applied	We have applied revenue as a benchmark for determining materiality as we considered that this provides us with a consistent year-on-year basis for determining materiality, reflecting the group's growth and investment actions aimed at delivering enhanced levels of future profitability, and which we believe is also a key measure used by the shareholders as a body in assessing the group's performance.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £225,000 (2014: £200,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the directors' statement, set out on page 39, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the directors' statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the group has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the group's ability to continue as a going concern.

Report on the group financial statements

Consistency of other information

Companies Act 2006 opinion

In our opinion:

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

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

• information in the Annual Report is: — materially inconsistent with the information in the audited financial statements; or — apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or — otherwise misleading.	We have no exceptions to report.
• the statement given by the directors on page 62, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the group's and parent company's performance, business model and strategy is materially inconsistent with our knowledge of the group and parent company acquired in the course of performing our audit.	We have no exceptions to report.
• the section of the Annual Report on pages 63 to 67, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

• the directors' confirmation on page 62 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
• the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
• the directors' explanation on page 39 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the directors' statement that they have carried out a robust assessment of the principal risks facing the group and the directors' statement in relation to the longer-term viability of the group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of 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. We have no exceptions to report arising from this responsibility.

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.

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on pages 76 and 77, 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.

What an audit of financial statements involves

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 group'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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in 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.

Other matter

We have reported separately on the company financial statements of Ocado Group plc for the 52 week period ended 29 November 2015 and on the information in the Directors' Remuneration Report that is described as having been audited.

Andrew Latham (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
St Albans
2 February 2016

CONSOLIDATED INCOME STATEMENT

for the 52 weeks ended 29 November 2015

	Notes	**52 Weeks Ended 29 November 2015 £m**	52 Weeks Ended 30 November 2014 £m
Revenue	2.3	**1,107.6**	948.9
Cost of sales		**(732.5)**	(636.0)
Gross profit		**375.1**	312.9
Other income	2.4	**49.0**	39.4
Distribution costs	2.5	**(309.4)**	(253.1)
Administrative expenses	2.5	**(95.6)**	(85.0)
Operating profit before result from joint venture and exceptional items		**19.1**	14.2
Share of result from joint venture	3.4	**2.3**	2.4
Exceptional items	2.7	**—**	(0.3)
Operating profit	2.5	**21.4**	16.3
Finance income	4.5	**0.2**	0.4
Finance costs	4.5	**(9.7)**	(9.5)
Profit before tax		**11.9**	7.2
Taxation	2.8	**(0.1)**	0.1
Profit for the period		**11.8**	7.3
Profit per share		**pence**	pence
Basic profit per share	2.9	**2.01**	1.24
Diluted profit per share	2.9	**1.91**	1.18

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

	Notes	**52 Weeks Ended 29 November 2015 £m**	52 Weeks Ended 30 November 2014 £m
Operating profit		**21.4**	16.3
Adjustments for:			
Depreciation of property, plant and equipment	3.2	**45.1**	40.0
Amortisation expense	3.1	**13.2**	12.4
Impairment of property, plant and equipment	3.2	**1.0**	1.1
Impairment of intangible assets	3.1	**0.8**	1.5
Exceptional items	2.7	**—**	0.3
EBITDA		**81.5**	71.6

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the 52 weeks ended 29 November 2015

	52 Weeks Ended 29 November 2015 £m	52 Weeks Ended 30 November 2014 £m
Profit for the period	**11.8**	7.3
Other comprehensive income:		
Items that may be subsequently reclassified to profit or loss		
Cash flow hedges		
— Losses arising on hedging contracts	**(0.7)**	(0.4)
— Gains transferred to property, plant and equipment	**—**	0.3
Foreign exchange loss on translation of foreign subsidiary	**—**	(0.1)
	(0.7)	(0.2)
Other comprehensive income for the period, net of tax	**(0.7)**	(0.2)
Total comprehensive income for the period	**11.1**	7.1

CONSOLIDATED BALANCE SHEET

as at 29 November 2015

	Notes	**29 November 2015 £m**	30 November 2014 £m
Non-Current Assets			
Intangible assets	3.1	**52.9**	38.4
Property, plant and equipment	3.2	**327.3**	275.2
Deferred tax asset	2.8	**10.0**	9.4
Financial assets	3.3	**2.9**	0.4
Investment in joint ventures	3.4	**62.0**	67.8
		455.1	391.2
Current Assets			
Inventories	3.7	**29.9**	27.6
Trade and other receivables	3.8	**60.8**	43.1
Cash and cash equivalents	3.9	**45.8**	76.3
		136.5	147.0
Total Assets		**591.6**	538.2
Current Liabilities			
Trade and other payables	3.10	**(164.4)**	(136.5)
Borrowings	4.2	**(1.6)**	(4.4)
Obligations under finance leases	4.3	**(26.5)**	(26.5)
Derivative financial instruments	4.6	**(0.7)**	(0.2)
Provisions	3.11	**(2.8)**	(0.4)
		(196.0)	(168.0)
Net Current Liabilities		**(59.5)**	(21.0)
Non-Current Liabilities			
Borrowings	4.2	**(7.7)**	(2.3)
Obligations under finance leases	4.3	**(137.0)**	(142.5)
Provisions	3.11	**(6.3)**	(5.2)
Deferred tax liability	2.8	**(2.7)**	(2.0)
		(153.7)	(152.0)
Net Assets		**241.9**	218.2
Equity			
Share capital	4.9	**12.6**	12.5
Share premium	4.9	**258.7**	255.1
Treasury shares reserve	4.9	**(50.9)**	(51.8)
Reverse acquisition reserve	4.9	**(116.2)**	(116.2)
Other reserves	4.9	**(0.8)**	(0.3)
Retained earnings		**138.5**	118.9
Total Equity		**241.9**	218.2

The notes on pages 132 to 174 form part of these financial statements.

The Consolidated financial statements on pages 127 to 174 were authorised for issue by the Board of Directors and signed on its behalf by:

Tim Steiner
Chief Executive Officer

Duncan Tatton-Brown
Chief Financial Officer

Ocado Group plc
Company Registration Number 07098618 (England and Wales)
2 February 2016

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the 52 weeks ended 29 November 2015

	Notes	Share Capital £m	Share Premium £m	Treasury Shares Reserve £m	Reverse Acquisition Reserve £m	Other Reserves £m	Retained Earnings £m	Total Equity £m
Balance at 1 December 2013		12.4	251.5	(52.4)	(116.2)	(0.1)	107.2	202.4
Profit for the period		—	—	—	—	—	7.3	7.3
Other comprehensive income:								
Cash flow hedges								
— Losses arising on forward foreign exchange contracts	4.9	—	—	—	—	(0.4)	—	(0.4)
— Gains arising on interest rate swaps	4.9	—	—	—	—	0.3	—	0.3
Translation of foreign subsidiary	4.9	—	—	—	—	(0.1)	—	(0.1)
Total Comprehensive Income/ (Expense) for the Period Ended 30 November 2014		—	—	—	—	(0.2)	7.3	7.1
Transactions with owners:								
— Issues of ordinary shares	4.9	0.1	3.6	—	—	—	—	3.7
— Share-based payments charge		—	—	—	—	—	4.4	4.4
— Disposal of treasury shares		—	—	0.6	—	—	—	0.6
Total Transactions with Owners		0.1	3.6	0.6	—	—	4.4	8.7
Balance at 30 November 2014		12.5	255.1	(51.8)	(116.2)	(0.3)	118.9	218.2
Profit for the period							11.8	11.8
Other comprehensive income:								
Cash flow hedges								
— Gains arising on forward contracts	4.9	—	—	—	—	0.2	—	0.2
— Losses arising on commodity swaps	4.9	—	—	—	—	(0.7)	—	(0.7)
— Gains arising on interest rate swaps	4.9	—	—	—	—	—	—	—
Translation of foreign subsidiary	4.9	—	—	—	—	—	—	—
Total Comprehensive Income/ (Expense) for the Period Ended 29 November 2015		**—**	**—**	**—**	**—**	**(0.5)**	**11.8**	**11.3**
Transactions with owners:								
— Issues of ordinary shares	4.9	0.1	4.4	—	—	—	—	4.5
— Share-based payments charge		—	—	—	—	—	7.8	7.8
— Reacquisition of interests in treasury shares		—	(0.8)	0.8	—	—	—	—
— Disposal of treasury shares		—	—	0.1	—	—	—	0.1
Total Transactions with Owners		**0.1**	**3.6**	**0.9**	**—**	**—**	**7.8**	**12.4**
Balance at 29 November 2015		**12.6**	**258.7**	**(50.9)**	**(116.2)**	**(0.8)**	**138.5**	**241.9**

CONSOLIDATED STATEMENT OF CASH FLOWS

for the 52 weeks ended 29 November 2015

	Notes	**52 weeks Ended 29 November 2015 £m**	52 weeks Ended 30 November 2014 £m
Cash Flows from Operating Activities			
Profit before tax		**11.9**	7.2
Adjustments for:			
— Depreciation, amortisation and impairment losses	3.1, 3.2	**60.1**	55.0
— Movement in provisions	3.11	**3.2**	1.9
— Share of profit in joint venture	3.4	**(2.3)**	(2.4)
— Share-based payments charge	2.6	**7.8**	4.4
— Foreign exchange movements		**—**	0.1
— Net Finance costs	4.5	**9.5**	9.1
Changes in working capital:			
— Movement in inventories		**(2.3)**	(3.6)
— Movement in trade and other receivables		**(19.1)**	(0.3)
— Movement in trade and other payables		**23.7**	13.8
Cash Generated from Operations		**92.5**	85.2
Interest paid		**(9.7)**	(9.7)
Net Cash Flows from Operating Activities		**82.8**	75.5
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		**(70.7)**	(53.0)
Purchase of intangible assets		**(28.4)**	(25.8)
Dividend received from joint venture		**8.1**	—
Interest received		**0.2**	0.5
Net Cash Flows from Investing Activities		**(90.8)**	(78.3)
Cash Flows from Financing Activities			
Proceeds from the issue of ordinary share capital net of transaction costs		**4.5**	3.7
Proceeds from borrowings		**8.2**	—
Repayment of borrowings		**(5.6)**	(2.9)
Repayments of obligations under finance leases		**(26.9)**	(30.5)
Payment of financing fees[1]		**(2.5)**	(1.2)
Settlement of cash flow hedges		**(0.2)**	(0.5)
Net Cash Flows from Financing Activities		**(22.5)**	(31.4)
Net Decrease in Cash and Cash Equivalents		**(30.5)**	(34.2)
Cash and cash equivalents at the beginning of the period		**76.3**	110.5
Cash and Cash Equivalents at the end of the Period	3.9	**45.8**	76.3

[1] £1.2 million in relation to financing fees paid in the prior year has been reclassified from movement in trade and other receivables to payment of financing fees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Section 1 — Basis of Preparation

1.1 General Information

Ocado Group plc (hereafter "the Company") is a listed company incorporated in England and Wales under the Companies Act 2006 (Registration number 07098618). The address of its registered office is Titan Court, 3 Bishops Square, Hatfield Business Park, Hatfield, Hertfordshire, AL10 9NE. The financial statements comprise the results of the Company and its subsidiaries (hereafter "the Group"), see Note 5.1. The Financial Period represents the 52 weeks ended 29 November 2015. The prior financial period represents the 52 weeks ended 30 November 2014.

The principal activities of the Group are described in the Strategic Report on pages 8 to 47.

1.2 Basis of Preparation

The financial statements have been prepared in accordance with the Listing Rules and the Disclosure and Transparency Rules of the UK Financial Conduct Authority (where applicable), International Financial Reporting Standards (IFRS) and International Financial Reporting Standards Interpretation Committee (IFRIC) 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 accounting policies applied are consistent with those described in the Annual Report and financial statements for the 52 weeks ended 30 November 2014 of Ocado Group plc.

The financial statements are presented in pounds sterling, rounded to the nearest hundred thousand unless otherwise stated. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial asset investments and certain financial assets and liabilities, which are held at fair value.

The Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements of the Group and Company.

Standards, Amendments and Interpretations Adopted by the Group in 2014/15 or Issued that are Effective

The Group has considered the following new standards, interpretations and amendments to published standards that are effective for the Group for the financial year beginning 1 December 2014 and concluded that they are either not relevant to the Group or that they would not have a significant impact on the Group's financial statements:

		Effective Date
IFRS 10	Consolidated Financial Statements*	1 January 2014
IFRS 12	Disclosure of Interests in Other Entities*	1 January 2014
IAS 19	Employee Benefits	1 July 2014
IAS 27	Separate Financial Statements	1 January 2014
IAS 32	Financial Instruments: Presentation	1 January 2014
IAS 36	Impairment of Assets	1 January 2014
IAS 39	Financial Instruments: Recognition and Measurement	1 January 2014

* The amendments for investment entities which are effective in IFRS 10, IFRS 12 and IAS 27, above, are not relevant for the Group. Amendments regarding the application of the consolidation exception for IFRS 10 and IFRS 12 are effective from 1 January 2016, and amendments regarding the reinstatement of the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements are effective from 1 January 2016, and are included in the table below.

1.2 Basis of Preparation (continued)

Standards, Amendments and Interpretations Issued that are not Effective, and which have not been Early Adopted by the Group

The following further new standards, interpretations and amendments to published standards and interpretations which are relevant to the Group have been issued but are not effective for the financial year beginning 1 December 2014 and have not been adopted early:

		Effective Date
IFRS 9	Financial Instruments	1 January 2018
IFRS 10	Consolidated Financial Statements	1 January 2016
IFRS 11	Joint Arrangements	1 January 2016
IFRS 12	Disclosure of Interests in Other Entities	1 January 2016
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IAS 1	Presentation of Financial Statements	1 January 2016
IAS 16	Property, Plant and Equipment	1 January 2016
IAS 27	Separate Financial Statements	1 January 2016
IAS 28	Investments in Associates and Joint Ventures	1 January 2016
IAS 38	Intangible Assets	1 January 2016
Various	Amendments to various IFRSs and IASs including those arising from the IASB's annual improvements project.	Various

The following new standards are not yet effective and the impact on the Group is currently under review:

— IFRS 16 "Leases" provides guidance on the classification, recognition and measurement of leases to help provide useful information to the users of financial statements. The main aim of this standard is to ensure all leases will be reflected on the balance sheet, irrespective of substance over form. The new standard will replace IAS 17 "Leases" and is effective for annual periods beginning on or after 1 January 2019 unless adopted early. The Group is currently reviewing the impact of IFRS 16.

1.3 Basis of Consolidation

The consolidated Group financial statements consist of the financial statements of the Company, all entities controlled by the Company (its subsidiaries) and the Group's share of its interests in joint ventures.

Subsidiaries

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which power over the operating and financial decisions is obtained and cease to be consolidated from the date on which power is transferred out of the Group. Power is achieved when the Company has the ability and right, directly or indirectly, to govern the financial and operating policies of an entity. This ability enables the Company to affect the amount of economic benefit generated from the entity's activities. This is evident for all of the Group's subsidiaries per Note 5.1.

With the exception of Ocado Polska Sp. Z.o.o. all subsidiaries have a year end of 29 November 2015. The Poland Accounting Act requires a financial year to be twelve full calendar months from the prior year end date. Therefore Ocado Polska Sp. Z.o.o has a year end of 30 November 2015.

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

Joint Ventures

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

1.3 Basis of Consolidation (continued)

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

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

Accounting Policies

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

Foreign Currency Translation

Functional and Presentation Currency

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

Transactions and Balances

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

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.

Group Companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

a. assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

b. income and expenses for each income statement are translated at average exchange rates (unless average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

c. all resulting exchange differences are recognised as a separate component of equity.

1.4 Significant Accounting Policies and Critical Estimates, Judgements and Assumptions

The preparation of the Group financial statements requires 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.

Changes in accounting estimates may be necessary if there are changes in the circumstances on which the estimate was based or as a result of new information or more experience. Significant accounting policies, estimates and assumptions, and judgements are provided below.

1.4 Significant Accounting Policies and Critical Estimates, Judgements and Assumptions (continued)

Accounting policies that are significant due to the nature of business:

Area	Estimate	Note
Revenue recognition	Revenue comprises the fair value of consideration received or receivable for the sale of goods and services. Revenue from the sale of goods is always recognised when the significant risks and rewards of ownership of the goods have been transferred to the customer, which is upon delivery of the goods to the customer's home. Revenue from the rendering of services is recognised over the period in which services are rendered.	2.1

Significant Estimates and Assumptions:

Area	Estimate	Note
Cost of Sales	At the period end the Group is required to estimate supplier income due from annual agreements for volume rebates, which span across the year-end date. Confirmation of some amounts due is often only received three to six months after the period end.	2.1
Share options and other equity instruments	The cost of equity-settled transactions with employees is measured, where appropriate, with reference to the fair value at the date on which they are granted. Estimates applied or used in a valuation model in order to calculate the cost include, but are not limited to, the expected life of the award, the number of awards that will ultimately vest and the expected volatility of the Company's share price.	4.10

Significant Judgements:

Area	Judgement	Note
Recognition of deferred tax assets	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.	2.8
Intangible assets (capitalisation of software costs)	The cost of internally generated assets is capitalised as an intangible asset where it is determined by management's judgement that the ability to develop the assets is technically feasible, will be completed, and that the asset will generate economic benefit that outweighs its cost.	3.1
Exceptional items	The Group applies judgement in identifying the significant non-recurring items of income and expense that are recognised as exceptional to help provide an indication of the Group's underlying business performance.	2.7
Share options and other equity instruments	The selection of valuation models, such as the Black–Scholes model, and parameters used in order to determine the fair value of certain share awards requires judgement.	4.10
Going concern	In order to assess whether it is appropriate for the Group to be reported as a going concern, the Directors apply judgement, having undertaken appropriate enquiries and having considered the business activities and the Group's principal risks and uncertainties as set on pages 38 to 41. In arriving at this judgement there are a large number of assumptions and estimates involved in calculating these future cash flow projections. This includes management's expectations of revenue, EBITDA, timing and quantum of future capital expenditure and estimates and cost of future funding. The group is required to undergo an assessment of the future viability of assets grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The Directors judge that under the Group's current operating structure, the lowest level at which cash flows can be assessed is for the Group as a whole.	1.5

1.4 Significant Accounting Policies and Critical Estimates, Judgements and Assumptions (continued)

Other estimates, assumptions and judgements are applied by the Group. These include, but not limited to, depreciation and amortisation on tangible and intangible assets respectively, and provisions. These estimates, assumptions and judgements are also evaluated on a continual basis but are not significant.

1.5 Going Concern Basis including its Effect on the Impairment of Assets

Accounting standards require that directors satisfy themselves that it is reasonable for them to conclude whether it is appropriate to prepare financial statements on a going concern basis. There has been no material uncertainty identified which would cast significant doubt upon the Group's ability to continue using the going concern basis of accounting for the 12 months following the approval of this Annual Report.

In assessing going concern, the Directors take into account the Group's cash flows, solvency and liquidity positions and borrowing facilities. At period end, the Group had cash and cash equivalents of £45.8 million, external gross debt (excluding finance leases payable to MHE JVCo) of £53.3 million and net current liabilities of £(59.5) million. The Group has a mix of short and medium term finance arrangements and has an unutilised £210 million revolving credit facility which contains typical financial covenants and runs until July 2019. The Group forecasts its liquidity requirements, working capital position and the maintenance of sufficient headroom against the financial covenants in its borrowing facilities (see below). The financial position of the Group, including information on cash flow, can be found in Our Financials on pages 127 to 131. In determining whether there are material uncertainties, the Directors consider the Group's business activities, together with factors that are likely to affect its future development and position (see section 7 on pages 16 to 23) and the Group's principal risks and the likely effectiveness of any mitigating actions and controls available to the Directors (see pages 38 to 41).

Further details of the Group's considerations are provided in the Group's Viability and Going Concern Statement on page 39.

Impairment of Assets Based on the Separation of the Business into Cash Generating Units

The Group is required to undergo an assessment of the future viability of assets grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Given the Group's current operating structure, the lowest level at which cash flows can reasonably be assessed is for the Group as a whole. The 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 cash flow projections, including management's expectations of:

- Increase in Revenue;
- Growth in EBITDA;
- Timing and quantum of future capital expenditure; and
- Estimation and cost of future funding.

Section 2 — Results for the Year

2.1 Profit Before Tax

Accounting Policies

Revenue

The Group follows the principles of IAS 18 "Revenue", in determining appropriate revenue recognition policies.

Revenue comprises the fair value of consideration received or receivable for the sale of goods and services. These 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 and carrier bag receipts are included in revenue.

2.1 Profit Before Tax (continued)

Revenue from the sale of goods is always recognised when the significant risks and rewards of ownership of the goods have been transferred. For deliveries performed by Ocado recognition of revenue is upon delivery of the goods to the customer's home. For goods which are delivered by third party couriers, revenue is recognised when the items have been transferred to the third party for onward delivery to the customer. 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.

Revenue from the rendering of services is recognised over the period in which services are rendered. Initial licence contract revenues are recognised over a term which is specific to individual customer contracts. For services, the term is the period over which services are rendered. For the licence of technology assets, the revenue is 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.

Cost of Sales

Cost of sales represents the cost of groceries and other products the Group sells, any associated licence fees which are driven by 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.

Commercial Income

The Group continues to have agreements with suppliers whereby promotional allowances and volume-related rebates are received in connection with the promotion or purchase of goods for resale from those suppliers. The allowances and rebates are included in cost of sales. In FY15 promotional allowances represent 85% of commercial income, with volume-related rebates representing 15%.

Promotional Allowances

Cost of sales also includes monies received from suppliers in relation to the agreed funding of selected items that are sold by the Group on promotion and is recognised once the promotional activity has taken place in the period to which it relates on an accruals basis. The estimates required for this source of income are limited because the time periods of promotional activity, in most cases, are less than one month and the invoicing for the activity occurs on a regular basis shortly after the promotions have ended.

Volume-Related Rebates

At the period end the Group is required to estimate supplier income due from annual agreements for volume rebates, which span across the year-end date. Estimates are required due to the fact that confirmation of some amounts due is often only received three to six months after the period end. Where estimates are required, these are based on current performance, historical data for prior years and a review of significant supplier contracts. A material amount of this income is received from third parties via the Group's supply agreement with Waitrose. The estimates for this income are prepared following discussions with Waitrose throughout the year and regularly reviewed by senior management.

Uncollected Commercial Income

Uncollected commercial income as at balance sheet date is classified within trade and other receivables. Where commercial income has been earned, but not yet invoiced at the balance sheet date, the amount is recorded in accrued income.

Other Income

Other income comprises the fair value of consideration received or receivable for advertising services provided by Ocado to suppliers and other third parties on the Webshop, commission income, rental

2.1 Profit Before Tax (continued)

income, sublease payments receivable and amounts receivable not in the ordinary course of business. Income for advertising services is recognised over the particular time period for which the service is provided on an accruals basis. An adjustment is made at the period end to accrue the amount of income in relation to campaigns that may span the period end, however such adjustments are not typically material.

Employee Benefits

The Group contributes to the personal pension plans of its staff through two pension plans: a defined contribution Group personal pension administered by Standard Life, and a defined contribution Money Purchase Scheme administered by People's Pensions. Employer contributions to the schemes 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. In most cases, this is the customer's home. This includes the payroll-related expenses for the picking, dispatch and delivery of products 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. This includes costs incurred on behalf of Morrisons which are subsequently recharged.

Administrative Expenses

Administrative expenses consist of all IT costs, advertising and marketing expenditure (excluding vouchers), share-based payments costs, employment costs of all central functions, which include board, legal, finance, human resources, marketing and procurement, rent and other property-related costs for the head office, all fees for professional services and the depreciation, amortisation and impairment associated with IT equipment, software, fixtures and fittings. Additionally, this includes costs incurred on behalf of Morrisons which are subsequently recharged.

Exceptional Items

The Group has adopted an income statement format which seeks to highlight significant items within the Group results for the year. The Group believes this format is useful as it highlights one-off items, such as material set-up costs for new fulfilment warehouses, reorganisation and restructuring costs, profit or loss on disposal of operations, and impairment of assets. Exceptional items, as disclosed on the face of the income statement, are items that due to their material and/or non-recurring nature, as determined by management, have been classified separately in order to draw them to the attention of the reader of the financial statements and to avoid distortion of underlying performance. This facilitates comparison with prior periods to assess trends in financial performance more readily. It is determined by management that each of these items relates to events or circumstances that are non-recurring in nature.

The Group applies judgement in identifying the significant non-recurring items of income and expense that are recognised as exceptional to help provide an indication of the Group's underlying business performance. Examples of items that the Group considers as exceptional include, but are not limited to, material costs relating to the opening of a new warehouse, corporate reorganisations and any material costs, outside of the normal course of business as determined by management.

2.2 Segmental Reporting

The Group's principal activities are grocery retailing and the development and monetisation of Intellectual Property ("IP") and technology used for the online retailing, logistics and distribution of grocery and consumer goods, currently derived solely from the UK. The Group is not reliant on any major customer for 10% or more of its revenue.

2.2 Segmental Reporting (continued)

In accordance with IFRS 8 "Operating Segments", an operating segment is defined as a business activity whose operating results are reviewed by the chief operating decision-maker ("CODM") and for which discrete information is available. Operating segments are reported in a manner consistent with the internal reporting provided to the CODM, as required by IFRS 8. The CODM, 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 Group are currently managed as one segment. Consequently, all activities relate to this segment.

The CODM's main indicator of performance of the segment is EBITDA, which is reconciled to operating profit below the income statement.

2.3 Gross Sales

A reconciliation of revenue to gross sales is as follows:

	52 Weeks Ended 29 November 2015 £m	52 Weeks Ended 30 November 2014 £m
Revenue	**1,107.6**	948.9
VAT	**82.4**	66.3
Marketing vouchers	**14.4**	11.3
Gross sales	**1,204.4**	1,026.5

2.4 Other Income

A breakdown of other income is as follows:

	52 Weeks Ended 29 November 2015 £m	52 Weeks Ended 30 November 2014 £m
Media and other income	**35.3**	28.0
Rental income	**13.7**	11.4
Other income	**49.0**	39.4

2.5 Operating Expenses

	Notes	**52 Weeks Ended 29 November 2015 £m**	52 Weeks Ended 30 November 2014 £m
Cost of inventories recognised as an expense		**715.3**	621.1
Employment costs	2.6	**212.8**	168.9
Amortisation expense	3.1	**13.2**	12.4
Depreciation of property, plant and equipment	3.2	**45.1**	40.0
Impairment of property, plant and equipment, included in:	3.2	**1.0**	1.1
— Distribution costs		**1.0**	1.0
— Administrative expenses		**—**	0.1
Impairment of intangible assets, included in:			
— Administrative expenses	3.1	**0.8**	1.5
Impairment of receivables	3.8	**0.8**	0.5
Operating lease rentals			
— Land and buildings		**10.3**	9.4
— Other leases		**0.3**	0.5
Net foreign exchange movements		**—**	(0.2)

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

	52 Weeks Ended 29 November 2015 £'000	52 Weeks Ended 30 November 2014 £'000
Fees payable to the Company auditor for the audit of the Parent Company and consolidation		
— Statutory Group and Company audit	**57**	60
Fees payable to the Company auditor for other services		
— Statutory audit of subsidiaries	**230**	184
— Non-audit fees	**37**	35
— Audit related services	**30**	28
	354	307

2.6 Employee Information

Employment costs during the financial period were as follows:

	52 Weeks Ended 29 November 2015 £m	52 Weeks Ended 30 November 2014 £m
Staff Costs During the Period:		
Wages and salaries	**206.8**	165.8
Social security costs	**18.1**	14.6
Other pension costs	**5.1**	4.1
Share-based payment expense*	**9.9**	6.0
Total gross employment costs	**239.9**	190.5
Staff costs capitalised to Intangible assets	**(21.3)**	(17.3)
Staff costs capitalised to property, plant and equipment	**(5.8)**	(4.3)
Total Employment Cost Expense	**212.8**	168.9
Average Monthly Number of Employees (including Executive Directors) by Function		
Operational staff	**7,453**	6,001
Support staff	**1,241**	1,004
	8,694	7,005

* Included in the share-based payment expense is the IFRS 2 charge of £7.8 million (2014: £4.4 million) and an additional provision of £2.1 million (2014: £1.6 million) for the payment of amounts due to participants of the Cash LTIP and employer's NIC upon allotment of the share awards.

2.7 Exceptional items

	52 Weeks Ended 29 November 2015 £m	52 Weeks Ended 30 November 2014 £m
Corporate Restructure	**—**	(0.3)
	—	(0.3)

Prior Year

Corporate Restructure

During the prior year, the Group undertook a corporate restructuring. The Group's business was split between a number of legal entities in order to reflect broadly the operational division of the business. To assist the restructuring the Group sought tax, accountancy and legal advice, for which a number of one-off costs were incurred.

2.8 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.

2.8 Taxation (continued)

Current Taxation

Current tax is the expected tax payable on the taxable income for the period, calculated 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 income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of reversal of the temporary differences is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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 Group 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.

Taxation — Income Statement

	52 Weeks Ended 29 November 2015 £m	52 Weeks Ended 30 November 2014 £m
Recognised in the income statement		
Current tax:		
UK corporation tax on profits of the period	**0.1**	—
Overseas corporation tax on profits of the period	**(0.1)**	0.1
Adjustments in respect of prior periods	**0.1**	(0.3)
Total Current Tax	**0.1**	(0.2)
Deferred tax:	**—**	0.3
Origination and reversal of temporary differences	**—**	(0.2)
Total Deferred Tax	**—**	0.1
Income Tax Expense/(credit)	**0.1**	(0.1)

2.8 Taxation (continued)

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

	52 Weeks Ended 29 November 2015 £m	52 Weeks Ended 30 November 2014 £m
Profit before tax	**11.9**	7.2
Effective tax credit at the UK tax rate of 20.3% (2014: 21.7%)	**2.4**	1.5
Effect of:		
Utilisation of brought forward losses	**—**	(0.2)
Permanent differences	**1.8**	1.8
Difference in overseas tax rates	**0.6**	—
Release of deferred tax on capitalised R&D	**—**	(0.4)
Tax losses for which no deferred tax asset recognised	**—**	0.3
Temporary differences on which no deferred tax recognised	**(4.8)**	(3.1)
Prior year adjustments	**0.1**	—
Income Tax Charge/(credit) for the Period	**0.1**	(0.1)

As enacted in Finance Act 2014, the standard rate of corporation tax in the UK changed from 21% to 20% with effect from 1 April 2015. Accordingly, the effective rate for the period is 20.3%.

Taxation — Balance Sheet

Movement in the deferred tax asset is as follows:

	52 Weeks Ended 29 November 2015 £m
	Tax Losses Carry Forwards
As at 1 December 2013	7.9
Recognised through the income statement	1.5
As at 30 November 2014	9.4
Effect of change in UK corporation tax rate	(0.9)
Recognised through the income statement	1.5
As at 29 November 2015	**10.0**

As enacted in the Finance Act (No.2) 2015, it will change to 19% from 1 April 2017 and to 18% from 1 April 2018. Deferred tax has been provided at the rate enacted at the balance sheet date.

Movement in the unrecognised deferred tax asset is analysed below:

	Tax Losses Carried Forward £m	Accelerated Capital Allowances £m	Other Short-Term Timing Differences £m	Total £m
As at 1 December 2013	48.3	17.0	—	65.3
Potential movement in the period unrecognised through:				
— Income statement	(0.7)	(2.0)	0.5	(2.2)
As at 30 November 2014	47.6	15.0	0.5	63.1
Effect of change in UK corporation tax rate	(4.8)	(1.5)	—	(6.3)
Potential movement in the period unrecognised through:				
— Income statement	(1.1)	(8.0)	(0.5)	(9.6)
As at 29 November 2015	**41.7**	**5.5**	**—**	**47.2**

2.8 Taxation (continued)

As at 29 November 2015 the Group had approximately £287.8 million of unutilised tax losses (2014: approximately £285.3 million) available for offset against future profits. A deferred tax asset of £10.0 million (2014: £9.4 million) has been recognised in respect of £55.6 million (2014: £47.0 million) of such losses, the recovery of which is supported by the expected level of future profits of the Group. The recognition of the deferred tax asset is based on forecasted operating results calculated in approved business plans and a review of tax planning opportunities. Management have concluded that there is sufficient evidence for the recognition of the deferred tax asset of £10.0 million (2014: £9.4 million).

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:

	£m
As at 1 December 2013	(0.4)
Recognised through the income statement	(1.6)
As at 30 November 2014	(2.0)
Effect of change in UK corporation tax rate	0.2
Recognised through the income statement	(0.9)
As at 29 November 2015	**(2.7)**

For the year ended 29 November 2015 the Group has recognised a deferred tax liability of £2.7 million (2014: £2.0 million). Of this amount, £2.3 million (2014: £1.7 million) is in respect of intangible assets that management assessed as qualifying for research and development corporation tax relief. The timing of the 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.

In a prior period, the Group recognised a deferred tax liability of £1.7 million in respect of intangible assets that management assessed as qualifying 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.

2.9 Profit Per Share

Basic profit per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares held pursuant to the Group's JSOS on an allocated basis which are accounted for as treasury shares.

Diluted profit per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion or vesting of all dilutive potential shares. The Company has two (2014: two) classes of instruments that are potentially dilutive, namely share options and shares held pursuant to the JSOS.

2.9 Profit Per Share (continued)

Basic and diluted profit per share has been calculated as follows:

	52 Weeks Ended 29 November 2015 Number of Shares (m)	52 Weeks Ended 30 November 2014 Number of Shares (m)
Issued shares at the beginning of the period, excluding treasury shares	**586.1**	582.5
Effect of share options exercised in the period	**2.2**	2.1
Effect of treasury shares disposed of in the period	**—**	0.3
Effect of shares issued in the period	**—**	—
Weighted average number of shares at the end of the period for basic earnings per share	**588.3**	584.9
Potentially dilutive share options and shares	**31.1**	29.4
Weighted average number of diluted ordinary shares	**619.4**	614.3
	£m	£m
Profit attributable to the owners of the Company	**11.8**	7.3
	pence	pence
Basic profit per share	**2.01**	1.24
Diluted profit per share	**1.91**	1.18

The only transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of these financial statements were the exercise of 16,754 share options under the company ESOS scheme, 2,903 share options under the SAYE3 scheme and the issue of 28,463 Partnership Shares under the SIP.

Section 3 — Assets and Liabilities

3.1 Intangible Assets

Accounting Policies

Intangible Assets

Intangible assets comprise internally generated assets relating mainly to computer software and other intangible assets relating mainly to externally acquired computer software and assets, and the right to use land. These are carried at cost less accumulated amortisation and any recognised impairment loss. Other intangible assets such as externally acquired computer software and software licences are capitalised and amortised on a straight-line basis over their useful lives of three to fifteen years, with the majority of such assets having 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. For the Group’s impairment policy on non-financial assets see Note 3.2.

Amortisation on intangible 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	3–15 years, or the lease term if shorter
Right to use land	The estimated useful economic life, or the lease term if shorter

3.1 Intangible Assets (continued)

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

Cost Capitalisation

The cost of internally generated assets are capitalised as an intangible asset where it is determined by management's judgement that the ability to develop the assets is technically feasible, will be completed, and that the asset will generate economic benefit that outweighs its cost. This is in line with the recognition criteria as outlined in IAS 38 "Intangible Assets". Management determine whether the nature of the projects meet the recognition criteria to allow for the capitalisation of internal costs, which include the total cost of any external products or services and labour costs directly attributable to development. During the year management have considered whether costs in relation to the time spent on specific software projects can be capitalised. Time spent that was eligible for capitalisation included time which was intrinsic to the development of new assets to be used or monetised by the Group, the enhancement of existing warehouse and routing systems capabilities, or improvements to applications used by the Group's customers.

Other development costs that do not meet the above criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Research expenditure is recognised as an expense as incurred. These are costs that form part of the intent of gaining new knowledge, which management assess as not satisfying the capitalisation criteria per IAS 38 "Intangible Assets" as outlined above. Examples of research costs include, but are not limited to, the following: salaries and benefits of employees assessing and analysing future technologies and their likely viability, and professional fees such as marketing costs and the cost of third party consultancy.

In certain circumstances, some assets are ready for use, but are not performing as intended by management. Development costs that relate to the enhancement or modifications of existing assets are capitalised until the asset is performing as intended by management. Management assess the capitalisation of these costs by consulting the guidance outlined in IAS 38 "Intangible Assets" and exercise judgement in determining the qualifying costs. When unsure if the enhancement or modification costs relate to the development of the asset or are maintenance expenditure in nature, management treat the expenditure as if it were incurred in the research phase only in line with IAS 38 guidance.

Internally generated assets consist primarily of costs relating to intangible assets which provide economic benefit independent of other assets, and intangible assets that are utilised in the operation of property, plant and equipment. These intangible assets are required for certain tangible assets to operate as intended by management. Management assess each material internally generated asset addition and consider whether it is integral to the successful operation of a related item of hardware, can be used across a number of applications and therefore whether the asset should be recognised as property, plant and equipment. If the asset could be used on other existing or future projects it will be recognised as an intangible asset. For example, should an internally generated asset, such as the software code to enhance the operation of existing CFC equipment, be expected to form the foundation or a substantial element of future software development, it has been recognised as an intangible asset.

Of the internally generated assets capitalised, 19% (2014:20%) relates to asset additions within property, plant and equipment.

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.

3.1 Intangible Assets (continued)

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.

Where the right to use land has been granted, the period over which the amortisation is charged is the lower of the estimated useful economic life and the lease expiry date.

	Internally Generated Assets £m	Other Intangible Assets £m	Total Intangible Assets £m
Cost			
At 1 December 2013	58.0	13.4	71.4
Additions	—	8.0	8.0
Internal development costs capitalised	17.3	—	17.3
Disposals	(9.7)	(8.2)	(17.9)
At 30 November 2014	65.6	13.2	78.8
Additions	**—**	**4.4**	**4.4**
Internal development costs capitalised	**24.1**	**—**	**24.1**
Disposals	**(6.7)**	**—**	**(6.7)**
At 29 November 2015	**83.0**	**17.6**	**100.6**
Accumulated amortisation			
At 1 December 2013	(33.3)	(11.1)	(44.4)
Charge for the period	(11.5)	(0.9)	(12.4)
Impairment	(1.5)	—	(1.5)
Disposals	9.7	8.2	17.9
At 30 November 2014	(36.6)	(3.8)	(40.4)
Charge for the period	**(12.4)**	**(0.8)**	**(13.2)**
Impairment	**(0.8)**	**—**	**(0.8)**
Disposals	**6.7**	**—**	**6.7**
At 29 November 2015	**(43.1)**	**(4.6)**	**(47.7)**
Net book value			
At 30 November 2014	29.0	9.4	38.4
At 29 November 2015	**39.9**	**13.0**	**52.9**

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

	52 Weeks Ended 29 November 2015 £m	52 Weeks Ended 30 November 2014 £m
Cost	**13.8**	13.2
Accumulated amortisation	**(9.3)**	(7.2)
Net Book Value	**4.5**	6.0

For the 52 weeks ended 29 November 2015, internal development costs capitalised represented approximately 85% (2014: 68%) of expenditure on intangible assets and 19% (2014: 15%) 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, any costs attributable to bringing the asset to its working condition for its intended use and major spares. An item of property, plant and equipment is recognised as an asset if it is probable that future economic benefits associated with the asset will flow to the entity, and the cost of the asset can be measured reliably.

Property, plant and equipment represents 55% of the total asset base of the Group in 2015 (2014: 51%). The estimates and assumptions made to determine the carrying value of property, plant and equipment and related depreciation are important to the Group's financial position and performance. Management assess the estimates and assumptions based on available external information and historical experience.

In determining the cost of property, plant and equipment, certain costs that relate to the intangible element of an asset are separately disclosed within Intangible assets, Note 3.1. Management exercise judgement to review each material asset addition and consider whether the intangible asset element can be used for other property, plant and equipment additions in the current or future years. Software written for the Group's first CFC in Hatfield is identified as a standalone intangible asset, because it has provided the foundation for software used in some areas of CFC2, and is expected to provide part of the foundation of software used in future centres including CFC3.

For more information on the Group's policy on capitalisation of borrowings costs, see Note 4.1.

Depreciation on other property, plant and equipment is charged to 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, or the lease term if shorter
Plant and machinery	3–20 years, or the lease term if shorter
Motor vehicles	2–7 years, or the lease term if shorter

Land is held at cost and not depreciated.

Assets in the course of construction are carried at cost less any recognised impairment loss. Cost includes professional fees and other directly attributable costs. Depreciation of these assets commences when the assets are ready for their intended use, on the same basis as other property assets.

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

Estimation of Useful Life

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.

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 Group's assets are determined by management at the time the asset is acquired and reviewed at least annually for appropriateness.

3.2 Property, Plant and Equipment (continued)

Management also assess the useful lives 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. Historically, changes in useful lives have not resulted in material changes to the Group's depreciation charge.

Impairment of Non-Financial Assets

An annual impairment review is performed on assets with indefinite useful lives. Those which do not have indefinite useful lives are subject to an annual depreciation or amortisation charge. These assets 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 costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. 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. When an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Given the Group's current operating structure the lowest level at which cash flows can reasonably be assessed is the Group as a whole. The Group 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.

	Land and Buildings £m	Fixtures, Fittings, Plant and Machinery £m	Motor Vehicles £m	Total £m
Cost				
At 1 December 2013	42.3	296.8	38.9	378.0
Additions	13.2	67.2	12.6	93.0
Disposals	(0.3)	(11.9)	(4.1)	(16.3)
At 30 November 2014	55.2	352.1	47.4	454.7
Additions	**25.5**	**54.3**	**18.4**	**98.2**
Disposals	**—**	**(3.1)**	**(10.6)**	**(13.7)**
At 29 November 2015	**80.7**	**403.3**	**55.2**	**539.2**
Accumulated Depreciation				
At 1 December 2013	(16.7)	(119.0)	(18.0)	(153.7)
Charge for the period	(1.8)	(30.0)	(8.2)	(40.0)
Impairment	(0.3)	(0.8)	—	(1.1)
Disposals	0.3	11.0	4.0	15.3
At 30 November 2014	(18.5)	(138.8)	(22.2)	(179.5)
Charge for the period	**(1.9)**	**(33.4)**	**(9.8)**	**(45.1)**
Impairment	**(0.1)**	**(0.9)**	**—**	**(1.0)**
Disposals	**—**	**3.1**	**10.6**	**13.7**
At 29 November 2015	**(20.5)**	**(170.0)**	**(21.4)**	**(211.9)**
Net Book Value				
At 30 November 2014	36.7	213.3	25.2	275.2
At 29 November 2015	**60.2**	**233.3**	**33.8**	**327.3**

3.2 Property, Plant and Equipment (continued)

Included within property, plant and equipment is capital work-in-progress for land and buildings of £31.9 million (2014: £15.4 million) and capital work-in-progress for fixtures, fittings, plant and machinery of £57.5 million (2014: £20.1 million).

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

	Land and Buildings £m	Fixtures, Fittings, Plant and Machinery £m	Motor Vehicles £m	Total £m
At 30 November 2014				
Cost	30.3	203.7	46.5	280.5
Accumulated depreciation and impairment	(16.3)	(73.9)	(21.6)	(111.8)
Net book value	14.0	129.8	24.9	168.7
At 29 November 2015				
Cost	**30.3**	**207.0**	**54.5**	**291.8**
Accumulated depreciation and impairment	**(17.9)**	**(92.7)**	**(20.8)**	**(131.4)**
Net Book Value	**12.4**	**114.3**	**33.7**	**160.4**

Property, plant and equipment with a net book value of £18.8 million (2014: £13.3 million) has been pledged as security for the secured loans (Note 4.1).

3.3 Financial Assets

Accounting Policies

Financial Assets

Financial assets comprise available-for-sale financial assets and prepaid fees in relation to financing activities.

Available-for-sale financial assets are those non-derivatives that are not designated as held for trading or that are not designated as “at fair value through profit and loss”. 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 Group’s investments fall within this category as explained below.

Prepaid fees in relation to financing activities are recognised when incurred. The prepaid fees are amortised in proportion to the draw down and utilisation of the underlying facility. Amortisation will commence when the underlying facility is first utilised through to the earlier of the expected refinancing date or end of the term. Any residual of the prepaid fee which is not amortised when the facility is refinanced or repaid will be charged to the Income Statement.

Investments

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.

	29 November 2015 £m	30 November 2014 £m
Unlisted equity investment — cost and net book value	**0.4**	0.4

3.3 Financial Assets (continued)

The unlisted equity investment comprises a 25% interest in Paneltex Limited ("Paneltex"), a company incorporated in the UK, which has not been treated as an associated undertaking as the Group 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 Group 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 Group does not intend to dispose of this investment in the foreseeable future.

Prepaid financing fees

The prepaid financing fees are in relation to financing facilities entered into during the year. The non-current portion of prepaid finance costs relate to amounts capitalised during the year which will not be amortised to the Income Statement within the next twelve months. As the facility has not been utilised there has been no amortisation in the year.

	29 November 2015 £m	30 November 2014 £m
Prepaid financing fees	**2.5**	—

3.4 Investment in Joint Ventures

Accounting Policies

The Group has assessed the nature of its joint arrangement under IFRS 11 "Joint Arrangements" and determined it to be a joint venture.

The Group'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 Group's share of the net assets of the entity, less any impairment in value. On transfer of land and/or work-in-progress to joint ventures, the Group recognises only its share of any profits or losses, namely that proportion sold outside the Group.

If the Group's share of losses in a joint venture or associate equals or exceeds its investment in the joint venture or associate, the Group 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 Group's interest in the entity.

Investment in Joint Ventures

The Group has a 50% equity interest valued at £62.0 million (2014: £67.8 million) in MHE JV Co, a joint venture company, incorporated in the UK, in which Morrisons and Ocado Operating Limited, a subsidiary in the Group are the sole investors. In the current year the Group received a dividend of £8.1 million from MHE JVCo (2014: £nil). In the prior year the Group injected a £6.5 million capital contribution into MHE JV Co to finance the acquisition of CFC2 fixed assets.

3.4 Investment in Joint Ventures (continued)

The Group's share of profit after tax for the year is detailed as follows:

	29 November 2015 £m	30 November 2014 £m
Group share of revenue	**3.1**	2.7
Group share of expenses, inclusive of tax	**(0.8)**	(0.3)
Group Share of Profit after Tax	**2.3**	2.4

At the period end the Group's share of the net assets of MHE JVCo were valued at £62.0 million (2014: £67.8 million) which is arrived at by taking into account the £2.3 million Group share of profit after tax and £8.1 million dividend paid by MHE JVCo to the Group.

For the 52 weeks ended 29 November 2015 the entity, MHE JVCo Limited, has recognised net interest income of £6.2 million (2014: £5.4 million). Costs incurred by MHE JVCo include depreciation of £1.2 million (2014: £0.6 million) and a tax charge of £0.4 million (2014: £nil). Material amounts held on its balance sheet as at 29 November 2015 include of finance lease receivables of £119.4 million (2014: £130.8 million), £8.9 million of property, plant and equipment (2014: £4.8 million), £0.5 million of cash and cash equivalents (2014: £2.7 million), and £5.6 million of trade and other payables (2014: £3.5 million), contributing towards net assets of £124.4 million. Other than as a finance lessor to the Group, MHE JVCo has no other significant operations. The principal place of business is the same as for Ocado Group plc, details of which are provided on page 132.

3.5 Business Combinations

Accounting Policies

Business Combinations

The acquisition method of accounting is used for the acquisition of subsidiaries. The cost of the acquisition is measured at the aggregate fair value of the consideration given. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business Combinations" are recognised at their fair value at the date the Group assumes control of the acquiree.

Acquisition related costs are recognised in the Consolidated income statement as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement measured at fair value at the date control is achieved. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs.

Investments in Subsidiaries

Investments in subsidiaries held by the Company are carried at cost less accumulated impairment losses. Goodwill is the excess of consideration transferred over the fair value of the identifiable net assets acquired.

There were no investments in new subsidiaries during the 52 weeks to 29 November 2015. In the prior year Speciality Stores Limited, a Group subsidiary, acquired 100% of the issued share capital of Paws & Purrs Ltd, obtaining control of the entity for consideration of £15,000, resulting in goodwill of £10,000.

3.6 Working Capital

Accounting Policies

Inventories

Inventories comprise goods held for resale, fuel and other consumable goods. Inventories are valued at the lower of cost and net realisable value as provided in IAS 2 "Inventories". Goods held for resale and consumables are valued using the weighted average cost basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. It also takes into account slow-moving, obsolete and defective inventory. 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. There has been no security granted over inventory unless stated otherwise.

The Group have a mix of grocery and general merchandise items within inventory which have different characteristics. For example, grocery lines have high inventory turnover, while non-food lines are typically held within inventory for a longer period of time and so run a higher risk of obsolescence. As inventories are carried at the lower of cost and net realisable value, this requires the estimation of the eventual sales price of goods to customers in the future. Judgement is applied when estimating the impact on the carrying value of inventories such as slow-moving, obsolete and defective inventory, which includes reviewing the quantity, age and condition of inventories throughout the year.

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 Group's loans and receivables are included in "Trade and other Receivables" 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.

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.

Provision for Impairment of Trade Receivables

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Any provision made against an impaired receivable is recognised in the income statement within administrative expenses. Subsequent recoveries of amounts previously written off are credited against this same financial statement caption.

The outcome of an impaired receivable depends on future events which are by their nature uncertain. In assessing the likely outcome, management bases its assessment on historical experience and other factors that are believed to be reasonable in the circumstances.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and short-term deposits with a maturity of three months or less at the date of acquisition. Cash at bank and in hand and short-term deposits are shown under current assets on the consolidated balance sheet. The carrying amount of these assets approximates to their fair value. They are therefore included as a component of cash and cash equivalents.

3.6 Working Capital (continued)

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 Group 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.

3.7 Inventories

	29 November 2015 £m	30 November 2014 £m
Goods for resale	**29.4**	27.1
Consumables	**0.5**	0.5
	29.9	27.6

Write-back of inventories recognised as a credit amounted to £0.2 million (2014: expense of £0.2 million) in the consolidated income statement.

3.8 Trade and Other Receivables

	29 November 2015 £m	30 November 2014* £m
Trade receivables	**31.0**	12.6
Less: provision for impairment of trade receivables	**(1.7)**	(3.0)
Net trade receivables	**29.3**	9.6
Other receivables	**4.8**	7.3
Prepayments	**10.7**	6.6
Accrued income	**16.0**	19.6
	60.8	43.1

* Accrued income with a value of £14.4 million as at 30 November 2014 has been reclassified from other receivables to accrued income.

Included within trade receivables is a balance of £5.6 million (2014: £0.8 million) owed by MHE JV Co.

Included in trade receivables is £4.3 million (2014: £5.0 million) due from suppliers in relation to commercial and media income. As at 22 January 2016 £3.8 million has been received. Included in accrued income is £9.5 million (2014; £8.9 million) to be invoiced to suppliers in relation to supplier funded promotional activity and £5.5 million (2014: £7.9 million) to be invoiced to suppliers in relation to volume-related rebate amounts. As at 22 January 2016 £12.9 million of accrued income has been invoiced.

3.8 Trade and Other Receivables (continued)

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

	29 November 2015		30 November 2014	
	Gross £m	**Impairment £m**	Gross £m	Impairment £m
Not past due	**43.8**	**—**	30.9	(2.0)
Past due 0–3 months	**8.0**	**(1.7)**	6.7	(0.3)
Past due 3–6 months	**—**	**—**	1.3	(0.2)
Past due over 6 months	**—**	**—**	0.6	(0.5)
	51.8	**(1.7)**	39.5	(3.0)

The provisions account for trade receivables is used to record impairment losses unless the Group 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 are past due but not impaired amount to £6.3 million (2014: £7.6 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:

	29 November 2015 £m	30 November 2014 £m
Past due 0–3 months	**6.3**	6.4
Past due 3–6 months	**—**	1.1
Past due over 6 months	**—**	0.1
	6.3	7.6

3.9 Cash and Cash Equivalents

	29 November 2015 £m	30 November 2014 £m
Cash at bank and in hand	**45.8**	76.3

£4.7 million (2014: £2.3 million) of the Group's cash and cash equivalents are held by the Group's captive insurance company to maintain its solvency requirements. A further £0.1 million (2014: £nil) is held by the trustee of the Group's employee benefit trust in relation to the Ocado Group Sharesave Scheme for employees in Poland. Therefore, these funds are restricted and are not available to circulate within the Group on demand.

3.10 Trade and Other Payables

	29 November 2015 £m	30 November 2014 £m
Trade payables	**63.6**	61.3
Taxation and social security	**5.8**	4.8
Accruals and other payables	**74.8**	46.6
Deferred income	**20.2**	23.8
	164.4	136.5

Deferred income represents the value of delivery income received under the Ocado Smart 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.

3.11 Provisions

Accounting Policies

Provisions are recognised in line with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". Provisions can be distinguished from other types of liability by considering the events that give rise to the obligation and the degree of uncertainty as to the amount or timing of the liability. These are recognised in the Consolidated balance sheet when the Group 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.

The amounts recognised as a provision are management's best estimates of the expenditure to settle present obligations as at balance sheet date. The outcome depends on future events, which are by their nature uncertain. Any difference between expectations and the actual future liability will be accounted for in the period when this is determined. In assessing the likely outcome, management base their assessment on historical experience and other factors that are believed to be reasonable in the circumstances.

Insurance Claims

Provisions for insurance claims relate to potential motor insurance claims and potential public liability claims where accidents have occurred but a claim has yet to be made. The provision is made based on estimates provided to Ocado by the third party manager of the Ocado Cell in Atlas Insurance PCC Limited (the "Ocado Cell").

Dilapidations

Provisions for dilapidations are made in respect of vehicles and properties where there are obligations to return the vehicles and properties to the condition and state they were in when the Group obtained the right to use them. These are recognised on a property-by-property basis and are based on the Group's best estimate of the likely committed cash outflow. Where relevant, these estimated outflows are discounted to net present value.

Employee Incentive Schemes

Provisions for employee incentive schemes relate to HMRC unapproved equity settled schemes and the Cash-Based Long Term Incentive Plan ("Cash LTIP"). For all unapproved schemes and the Cash LTIP, the Group is liable to pay employer's NIC upon allotment of the share awards.

Unapproved schemes are the Long Term Incentive Plan ("LTIP"), the Chairman's Share Matching Award, the Growth Incentive Plan ("GIP") and unapproved Executive Share Ownership Scheme ("ESOS"). For more details on these schemes, refer to note 4.10.

In the prior year, the Group established the Cash LTIP in order to incentivise selected high performing employees of the Company. At the end of the three-year vesting period, employees will be paid a cash amount equal to the notional number of awards at the prevailing share price, adjusted for the achievement of the performance conditions.

3.11 Provisions (continued)

Provisions

	Insurance Claims £m	Dilapidations £m	Employee Incentive Schemes £m	Total £m
As at 1 December 2013	0.8	2.9	—	3.7
Charged/(credited) to the income statement				
— additional provision	0.3	0.4	1.6	2.3
— unused amounts reversed	—	(0.1)	—	(0.1)
Used during the period	(0.2)	(0.1)	—	(0.3)
As at 30 November 2014	0.9	3.1	1.6	5.6
Charged/(credited) to the income statement				
— additional provision	**0.9**	**0.9**	**2.1**	**3.9**
— unused amounts reversed	**(0.4)**	**—**	**—**	**(0.4)**
Used during the period	**—**	**(0.1)**	**—**	**(0.1)**
Unwind of discount	**—**	**0.1**	**—**	**0.1**
As at 29 November 2015	**1.4**	**4.0**	**3.7**	**9.1**

Analysis of total provisions as at 30 November 2014

	Insurance Claims £m	Dilapidations £m	Employee Incentive Schemes £m	Total £m
Current	0.2	0.2	—	0.4
Non-current	0.7	2.9	1.6	5.2
	0.9	3.1	1.6	5.6

Analysis of total provisions as at 29 November 2015

	Insurance Claims £m	Dilapidations £m	Employee Incentive Schemes £m	Total £m
Current	**0.5**	**0.2**	**2.1**	**2.8**
Non-current	**0.9**	**3.8**	**1.6**	**6.3**
	1.4	**4.0**	**3.7**	**9.1**

Insurance Claims

The Ocado Cell uses statistical information built up over several years to estimate, as accurately as possible, the future out-turn of the total claims value incurred but not reported as at the balance sheet date. In practice the Ocado Cell receives newly reported claims after the end of the underwriting period that have to be allocated to the year of loss (i.e. the underwriting year of occurrence). The calculation of this provision involves estimating a number of variables, principally the level of claims which may be received and the level of any compensation which may be payable. Uncertainty associated with these factors may result in the ultimate liability being different from the reported provision. Although it is expected that £0.5 million claims will be settled within 12 months of the balance sheet date, the exact timing of utilisation of the provision is uncertain.

Dilapidations

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

3.11 Provisions (continued)

The CFC1 lease expires in 2032, the CFCF2 lease expires in 2038, head office leases expire between 2016 and 2019, with leases for the spokes expiring up to 2068. Contractual amounts are due to be incurred at the end of the respective lease terms.

Leases for vehicles run for five years, with the contractual obligation per vehicle 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.

Employee Incentive Schemes

The provision consists of the Cash LTIP and employer's NIC on HMRC unapproved equity-settled schemes.

The Cash LTIP provision represents the expected cash payments to participants upon vesting of the awards. It has been calculated using various assumptions regarding liquidity, participants' retention and achievability of the performance conditions, and valued with reference to the year-end share price. If at any point following initial valuation any of these assumptions are revised, the charge will need to be amended accordingly. In addition to the base cost, since this is a cash benefit, the Group will be liable to pay employer's NIC on the value of the cash award upon allotment, which is included in the above employer's NIC provision.

To calculate the employer's NIC provision, the applicable employers NIC rate is applied to the number of share awards which are expected to vest, valued with reference to the year-end share price. The number of share awards expected to vest is dependent on various assumptions which are determined by management; namely participants' retention rate, the expectation of meeting the performance criteria, if any, and the liquidity discount. All assumptions are supported by historical trends and internal financial forecasts, where appropriate.

For the GIP, an external valuation was carried out to determine the fair value of the awards granted (see Note 4.10 (g)).

If at any point during the life of each share award, any non-market conditions are subject to change, such as the retention rate or the likelihood of the performance condition being met, the number of share awards likely to vest will need to be recalculated which will cause the value of the employer's NIC provision to change accordingly.

Once the share awards under each of the schemes have vested, the provision will be utilised when they are allocated to participants. Vesting will occur between 2016 and 2019.

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 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 Consolidated 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 Group. All other leases are classified as operating leases. For property leases, the land and building elements are accounted for separately after determining the appropriate lease classification.

4.1 Leases and Borrowings (continued)

The Group 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 Group 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.

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, the assets are expected to be sold at fair value, and accordingly the profit or loss from the sale is recognised immediately in the Consolidated income statement.

Lease Incentives

Lease incentives primarily include upfront cash payments or rent-free periods. Lease incentives are capitalised and released against the relevant rental expense over the lease term.

4.2 Borrowings and Finance Leases

	Notes	**29 November 2015 £m**	30 November 2014 £m
Current Liabilities			
Borrowings	4.2	**1.6**	4.4
Obligations under finance leases	4.3	**26.5**	26.5
		28.1	30.9
Non-Current Liabilities			
Borrowings	4.2	**7.7**	2.3
Obligations under finance leases	4.3	**137.0**	142.5
		144.7	144.8
Total Borrowings and Finance Leases		**172.8**	175.7

Borrowings

	Less than one year £m	Between one year and two years £m	Between two years and five years £m	Total £m
As at 30 November 2014				
Secured loans	4.4	1.8	0.5	6.7
Total Borrowings	4.4	1.8	0.5	6.7
As at 29 November 2015				
Secured loans	**1.6**	**1.5**	**6.2**	**9.3**
Total Borrowings	**1.6**	**1.5**	**6.2**	**9.3**

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

Principal amount £m	Inception	Secured over	Current interest rate	Instalment frequency	Final payment due	**Carrying amount as at 29 November 2015 £m**	Carrying amount as at 30 November 2014 £m
8.0	May–07	Property, plant and equipment	Clearing bank base rate + 3.0%	Quarterly	Feb–15	**—**	0.8
1.5	Dec–06	Freehold property	LIBOR + 2.75%	Quarterly	Feb–15	**—**	0.4
1.5	Feb–09	Freehold property	LIBOR + 2.75%	Quarterly	Feb–15	**—**	0.6
2.8	Dec–09	Freehold property	LIBOR + 2.75%	Quarterly	Dec–15	**—**	1.5
2.6	Jul–12	Freehold property	LIBOR + 2.75%	Quarterly	Jul–15	**—**	1.9
2.5	Jul–12	Property, plant and equipment	9.12%†	Monthly	Jul–17	**1.1**	1.5
8.2	Sept–15	Freehold Property	LIBOR + 1.5%	Quarterly	Sept–18	**8.2**	—
						9.3	6.7
Disclosed as:							
Current						**1.6**	4.4
Non-current						**7.7**	2.3
						9.3	6.7

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

4.2 Borrowings and Finance Leases (continued)

In the prior year a three-year £100 million revolving credit facility was entered into with Barclays, HSBC, RBS and Santander. In the current year the Group amended and extended this unsecured RCF. The facility was increased to £210 million and extended by two years to 1 July 2019. As at 29 November 2015 the facility remains unutilised. The facility contains typical restrictions concerning dividend payments and additional debt and leases.

4.3 Obligations Under Finance Leases

	29 November 2015 £m	30 November 2014 £m
Obligations under finance leases due:		
Within one year	**26.5**	26.5
Between one and two years	**23.8**	22.4
Between two and five years	**62.1**	56.0
After five years	**51.1**	64.1
Total obligations under finance leases	**163.5**	169.0

External obligations under finance leases are £44.0 million (2014: £38.2 million) excluding £119.5 million (2014: £130.8 million) payable to MHE JV Co, a joint venture company.

	29 November 2015 £m	30 November 2014 £m
Minimum lease payments due:		
Within one year	**34.8**	34.9
Between one and two years	**30.3**	29.3
Between two and five years	**75.0**	70.4
After five years	**55.3**	71.0
	195.4	205.6
Less: future finance charges	**(31.9)**	(36.6)
Present value of finance lease liabilities	**163.5**	169.0
Disclosed as:		
Current	**26.5**	26.5
Non-current	**137.0**	142.5
	163.5	**169.0**

The existing finance lease arrangements entered into by the Group 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.

4.4 Analysis of Net Debt

Net debt

	Notes	**29 November 2015 £m**	30 November 2014 £m
Current Assets			
Cash and cash equivalents	3.9	**45.8**	76.3
Current Liabilities			
Borrowings	4.1	**(1.6)**	(4.4)
Obligations under finance leases	4.1	**(26.5)**	(26.5)
		(28.1)	**(30.9)**
Non-Current Liabilities			
Borrowings	4.1	**(7.7)**	(2.3)
Obligations under finance leases	4.1	**(137.0)**	(142.5)
		(144.7)	**(144.8)**
Total Net Debt		**(127.0)**	**(99.4)**

Net debt is £7.5 million (2014: net cash £31.4 million), excluding finance lease obligations of £119.5 million (2014: £130.8 million) payable to MHE JVCo, a joint venture company. £4.8 million (2014: £2.3 million) of the Group's cash and cash equivalents are considered to be restricted and are not available to circulate within the Group on demand. For more information see Note 3.9.

Reconciliation of Net Cash Flow to Movement in Net Debt

	29 November 2015 £m	30 November 2014 £m
Net increase/(decrease) in cash and cash equivalents	**(30.5)**	(34.2)
Net (increase)/decrease in debt and lease financing	**24.3**	33.4
Non-cash movements:		
— Assets acquired under finance lease	**(21.4)**	(47.7)
Movement in Net Debt in the Period	**(27.6)**	(48.5)
Opening net debt	**(99.4)**	(50.9)
Closing Net Debt	**(127.0)**	(99.4)

4.5 Finance Income and Costs

Accounting Policies

Borrowing Costs

Borrowing costs which are directly attributable to the acquisition or construction of qualifying assets are capitalisable. 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.

Finance Income and Costs

Interest income is accounted for on an accruals basis using the effective interest method. Finance costs comprise obligations on finance leases and borrowings and are recognised in the period in which they fall due.

4.5 Finance Income and Costs (continued)

Finance Income and Costs

	52 Weeks Ended 29 November 2015 £m	52 Weeks Ended 30 November 2014 £m
Interest on cash balances	**0.2**	0.4
Finance Income	**0.2**	0.4
Borrowing costs		
— Obligations under finance leases	**(8.8)**	(8.7)
— Borrowings	**(0.6)**	(0.9)
Fair value movement in derivative	**(0.2)**	0.1
Fair value movement on provisions	**(0.1)**	—
Finance Costs	**(9.7)**	(9.5)
Net Finance Costs	**(9.5)**	(9.1)

The fair value movement in derivative financial instruments arose from fair value adjustments on the Group's cash flow hedges.

4.6 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 29 November 2015 the Group's derivative financial instruments consist of commodity swap contracts which are designated as cash flow hedges of highly probable transactions. At 30 November 2014 the Group's derivative financial instruments consisted of forward foreign exchange contracts.

The Group 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 Consolidated statement of comprehensive income. The full fair value of hedging derivatives is 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 other comprehensive income. Amounts accumulated through other comprehensive income 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 of the Group's cash flow hedges were effective and there is therefore no ineffective portion recognised in profit or loss.

4.6 Derivative Financial Instruments (continued)

	29 November 2015 £m	30 November 2014 £m
Derivative Liability		
Commodity swap contracts	**(0.7)**	—
Forward foreign exchange contracts (cash flow hedges)	**—**	(0.2)
	(0.7)	(0.2)

Commodity Swap Contracts

The notional principal amounts of the outstanding commodity swap contracts at 29 November 2015 were £3.2 million (2014: £nil). The hedged highly probable forecast transactions are expected to occur at various dates during the next twelve months. Cumulative gains and losses of £1.1 million have been recognised in the hedging reserve within other comprehensive income of which £0.7 million is the balance at year end. These losses are recognised in the income statement in periods during which the hedged forecast transaction affects the income statement.

Forward Foreign Exchange Contracts

There were no outstanding forward foreign exchange contracts at 29 November 2015. The notional principal amounts of the outstanding forward foreign exchange contracts at 30 November 2014 were € 3.8 million. The corresponding amount in sterling as at 30 November 2014 was 2014: £3.2 million.

There are no cumulative gains and losses recognised in the hedging reserve within other comprehensive income (2014: £0.4 million of losses). These gains were recognised in the income statement in periods during which the hedged forecast transaction affected the income statement, which for property, plant and equipment is over the useful life of the asset (3 to 10 years).

4.7 Financial Instruments

Accounting Policies

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

The Group 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 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.

4.7 Financial Instruments (continued)

Impairment of Financial Assets

Assets Carried at Amortised Cost

The Group 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 Group 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.

Fair Value of Financial Instruments

Financial instruments carried at fair value in the Balance Sheet comprise the derivative assets and liabilities — see Note 4.6. The Group 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 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 (level 3).

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

4.7 Financial Instruments (continued)

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:

	Notes	**29 November 2015 Carrying Value £'000**	**29 November 2015 Fair Value £'000**	30 November 2014 Carrying Value £'000	30 November 2014 Fair Value £'000
Financial Assets					
Cash and cash equivalents	3.9	**45.8**	**45.8**	76.3	76.3
Trade receivables	3.8	**29.3**	**29.3**	9.6	9.6
Other receivables (incl. accrued income, excl. prepayments)	3.8	**20.8**	**20.8**	26.9	26.9
Non-current financial assets	3.3	**2.8**	**2.8**	0.4	0.4
Total financial assets		**98.7**	**98.7**	113.2	113.2
Financial Liabilities					
Trade payables	3.10	**(63.6)**	**(63.6)**	(61.3)	(61.3)
Accruals and other payables	3.10	**(74.8)**	**(74.8)**	(46.6)	(46.6)
Borrowings	4.2	**(9.3)**	**(9.3)**	(6.7)	(6.7)
Finance lease obligations	4.3	**(163.5)**	**(163.5)**	(169.0)	(169.0)
Derivative liabilities	4.6	**(0.7)**	**(0.7)**	(0.2)	(0.2)
Total financial liabilities		**(311.9)**	**(311.9)**	(283.8)	(283.8)

The derivative liabilities relate to forward commodity and foreign exchange contracts.

The Group'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% (2014: 3.0%).

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.

4.7 Financial Instruments (continued)

The Group has categorised its financial instruments as follows:

	Notes	Available-for-Sale £m	Loans and Receivables £m	Financial Liabilities at Amortised Cost £m	Financial Liabilities at Fair Value Through Profit and Loss £m	Total £m
As at 30 November 2014						
Financial Assets as per the Balance Sheet						
Cash and cash equivalents	3.9	—	76.3	—	—	76.3
Trade and other receivables (excluding prepayments)	3.8	—	36.5	—	—	36.5
Financial assets	3.3	0.4	—	—	—	0.4
Total		0.4	112.8	—	—	113.2
Financial Liabilities as per the Balance Sheet						
Trade payables	3.10	—	—	(61.3)	—	(61.3)
Accruals	3.10	—	—	(46.6)	—	(46.6)
Borrowings	4.2	—	—	(6.7)	—	(6.7)
Obligations under finance leases	4.3	—	—	(169.0)	—	(169.0)
Derivative liabilities	4.6	—	—	—	(0.2)	(0.2)
Total		—	—	(283.6)	(0.2)	(283.8)

	Notes	**Available-for-Sale £m**	**Loans and Receivables £m**	**Financial Liabilities at Amortised Cost £m**	**Financial Liabilities at Fair Value Through Profit and Loss £m**	**Total £m**
As at 29 November 2015						
Financial Assets as per the Balance Sheet						
Cash and cash equivalents	3.9	**—**	**45.8**	**—**	**—**	**45.8**
Trade and other receivables (excluding prepayments)	3.8	**—**	**50.1**	**—**	**—**	**50.1**
Financial assets	3.3	**2.8**	**—**	**—**	**—**	**2.8**
Total		**2.8**	**95.9**	**—**	**—**	**98.7**
Financial Liabilities as per the Balance Sheet						
Trade payables	3.10	**—**	**—**	**(63.6)**	**—**	**(63.6)**
Accruals and other payables	3.10	**—**	**—**	**(74.8)**	**—**	**(74.8)**
Borrowings	4.2	**—**	**—**	**(9.3)**	**—**	**(9.3)**
Obligations under finance leases	4.3	**—**	**—**	**(163.5)**	**—**	**(163.5)**
Derivative liabilities	4.6	**—**	**—**	**—**	**(0.7)**	**(0.7)**
Total		**—**	**—**	**(311.2)**	**(0.7)**	**(311.9)**

4.8 Financial Risk Management

Overview

The Group's financial instruments comprise trade receivables and payables, borrowings and finance leases, cash and cash equivalents, and derivatives. The main financial risks faced by the Group relate to the risk of default by counterparties following financial transactions, the availability of funds for the Group to meet its obligations as they fall due and fluctuations in interest and foreign exchange rates.

4.8 Financial Risk Management (continued)

The management of these risks is set out below.

Credit Risk

The Group's exposures to credit risk arise from holdings of cash and cash equivalents, trade and other receivables (excluding prepayments) and derivative assets. The carrying value of these financial assets, as set out in Note 4.7, represents the maximum credit exposure. No collateral is held as security against these assets.

Cash and Cash Equivalents

The Group'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.

Trade and Other Receivables

Trade and other receivables at the period end comprise mainly monies due from suppliers, which are considered of a good credit quality, as well as VAT receivables. The Group provides for doubtful receivables in respect of monies due from suppliers.

The Group has very low retail credit risk due to transactions being principally of a high volume, low value and short maturity. The Group has effective controls over this area. The Group has allowed 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 allowance for the impairment of trade and other receivables are as follows:

	Notes	**29 November 2015 £m**	30 November 2014 £m
At the beginning of the period		**(3.0)**	(0.5)
Provision for impairment of receivables		**(0.9)**	(2.5)
Uncollectable amounts written off		**1.6**	(0.5)
Recovery of amounts previously provided		**0.6**	0.5
At the end of the period	3.8	**(1.7)**	(3.0)

The Group has adequate cash resources to manage the short-term working capital needs of the business. In the prior year a 3-year £100 million revolving facility was entered into with Barclays, HSBC, RBS and Santander. In the current year the facility was extended by a further two years and the amount of the facility was increased to £210 million. As at 29 November 2015 the facility remained unutilised. The Group regularly reviews its financing arrangements. For further details of the review please refer to the Group's Viability Statement on page 39.

The Group monitors its liquidity requirements to ensure it has sufficient cash to meet operational needs. For further details see Note 4.11.

4.8 Financial Risk Management (continued)

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date at the Balance sheet 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
Financial Liabilities							
Trade payables	3.10	(61.3)	(61.3)	(61.3)	—	—	—
Accruals	3.10	(46.6)	(46.6)	(46.6)	—	—	—
Borrowings	4.2	(6.7)	(6.9)	(4.5)	(1.9)	(0.5)	—
Obligations under finance leases	4.3	(169.0)	(205.6)	(34.9)	(29.3)	(70.4)	(71.0)
Derivative liabilities	4.6	(0.2)	(0.2)	(0.2)	—	—	—
30 November 2014		(283.8)	(320.6)	(147.5)	(31.2)	(70.9)	(71.0)

	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
Financial Liabilities							
Trade payables	3.10	**(63.6)**	**(63.6)**	**(63.6)**	**—**	**—**	**—**
Accruals and other payables	3.10	**(74.8)**	**(74.8)**	**(74.8)**	**—**	**—**	**—**
Borrowings	4.2	**(9.3)**	**(9.7)**	**(1.8)**	**(1.7)**	**(6.2)**	**—**
Obligations under finance leases	4.3	**(163.5)**	**(195.4)**	**(34.8)**	**(30.3)**	**(75.0)**	**(55.3)**
Derivative liabilities	4.6	**(0.7)**	**(0.7)**	**(0.7)**	**—**	**—**	**—**
29 November 2015		**(311.9)**	**(344.2)**	**(175.7)**	**(32.0)**	**(81.2)**	**(55.3)**

Market Risk

Currency Risk

The Group has foreign currency exposure in relation to its foreign currency trade payables and a portion of its cash and cash equivalents.

Foreign currency trade payables arise principally on purchases of plant and equipment, primarily in relation to the Euro, Polish Zloty and US Dollar. Bank accounts are maintained in these foreign currencies in order to minimise the Group's exposure to fluctuations in the currency relating to current and future purchases of plant and equipment.

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

	29 November 2015 £m	30 November 2014 £m
Cash and cash equivalents — EUR	**0.4**	0.7
Cash and cash equivalents — PLN	**0.4**	0.3
Trade payables at period end — EUR	**(0.2)**	(0.4)
Trade payables at period end — PLN	**(0.1)**	—
Trade payables at period end — USD	**(0.2)**	(0.1)
Derivative (liability)/asset (forward foreign exchange contracts) — EUR	**—**	(0.2)
	0.3	0.3

4.8 Financial Risk Management (continued)

The table below shows the Group's sensitivity to changes in foreign exchange rates on its financial instruments denominated in foreign currencies.

	29 November 2015		30 November 2014	
	Increase/ (decrease) in Income £m	**Increase/ (decrease) in Equity £m**	Increase/ (decrease) in Income £m	Increase/ (decrease) in Equity £m
10% appreciation of the above foreign currencies	**(0.1)**	**—**	(0.1)	0.3
10% depreciation of the above foreign currencies	**0.1**	**—**	0.1	(0.3)

A movement of the euro, as indicated, against sterling at 29 November 2015 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 Group considered to be reasonably possible at the end of the period. The analysis assumes that all other variables remain constant.

Interest Rate Risk

The Group is exposed to interest rate risk on its floating rate interest bearing borrowings and floating rate cash and cash equivalents. The Group'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 floating rate interest bearing borrowings is not significant.

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

	29 November 2015 £m	30 November 2014 £m
Fixed Rate Instruments		
Financial assets	**41.6**	50.8
Financial liabilities	**(163.4)**	(169.0)
Variable Rate Instruments		
Financial assets	**4.2**	25.5
Financial liabilities	**(9.2)**	(6.7)

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 assessed as being 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.

	29 November 2015 £m	30 November 2014 £m
Equity		
Gain	**—**	—
Income		
Gain	**—**	0.1

4.9 Share Capital and Reserves

Accounting Policy

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

Share Capital and Reserves

As at 29 November 2015, the number of ordinary shares available for issue under the Block Listing Facilities was 14,620,308 (2014: 19,094,500). These ordinary shares will only be issued and allotted when the shares under the relevant share incentive plan have been awarded or the share options under the Group's executive share ownership scheme and non-employee share options and Sharesave schemes have been exercised. They are therefore not included in the total number of ordinary shares outstanding below.

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

	Ordinary Shares Number of Shares (million)	Ordinary Shares £m	Share Premium £m
At 1 December 2013	617.7	12.4	251.5
Issues of ordinary shares	0.5	—	0.1
Allotted in respect of Joint Share Ownership Scheme	—	—	0.2
Allotted in respect of share option schemes	2.7	0.1	3.3
At 30 November 2014	620.9	12.5	255.1
Issues of ordinary shares	**0.6**	**—**	**0.5**
Reacquisition of interest in treasury shares	**—**	**—**	**(0.8)**
Allotted in respect of share option schemes	**3.9**	**0.1**	**3.9**
At 29 November 2015	**625.4**	**12.6**	**258.7**

Included in the total number of ordinary shares outstanding above are 34,770,981 (2014: 34,810,561) ordinary shares held by the Group's employee benefit trust (see Note 4.10(b)). The ordinary shares held by the trustee of the Group's employee benefit trust pursuant to the Joint Share Ownership scheme are treated as treasury shares in the Consolidated balance sheet in accordance with IAS 32 "Financial Instruments: Presentation". These ordinary shares have voting rights but these have been waived by the trustee (although the trustee may vote in respect of shares that have vested and remain in the trust). The number of allotted, called up and fully paid shares, excluding treasury shares, at the end of each period differs from that used in the basic profit per share calculation in Note 2.9 as basic profit per share is calculated using the weighted average number of ordinary shares in issue during the period, excluding treasury shares.

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

	Notes	Treasury Shares Reserve £m	Reverse Acquisition Reserve £m	Fair Value Reserve £m
At 1 December 2013		(52.4)	(116.2)	(0.1)
Movement on derivative financial instrument	4.9(b)	—	—	(0.2)
Disposal of treasury shares	4.9(a)	0.6	—	—
At 30 November 2014		(51.8)	(116.2)	(0.3)
Movement on derivative financial instrument	4.9(b)	**—**	**—**	**(0.5)**
Disposal of treasury shares	4.9(a)	**0.1**	**—**	**—**
Reacquisition of interests in treasury shares	4.9(a)	**0.8**	**—**	**—**
At 29 November 2015		**(50.9)**	**(116.2)**	**(0.8)**

4.9 Share Capital and Reserves (continued)

(a) Treasury Shares Reserve

This reserve arose when the Group issued equity share capital under its JSOS, which is held in trust by the trustee of the Group's employee benefit trust. Treasury shares cease to be accounted for as such when they are sold outside the Group or the interest is transferred in full to the participant pursuant to the terms of the JSOS. Participant interests in unexercised shares held by participants are not included in the calculation of treasury shares; unvested interests of leavers which have been reacquired by the Group's employee benefit trust during the period are not accounted for as treasury shares. See Note 4.10(b) for more information on the JSOS.

(b) Other Reserves

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

The acquisition by the Company of the entire issued share capital in 2010 of Ocado Limited was accounted for as a reverse acquisition under IFRS 3 (revised). Consequently the previously recognised book values and assets and liabilities have been retained and the consolidated financial information for the period to 29 November 2015 has been presented as if the Company had always been the parent company of the Group.

4.10 Share Options and Other Equity Instruments

Accounting Policies

Employee Benefits

Employees (including Directors) of the Group receive part of their remuneration in the form of share-based payments, whereby, depending on the scheme, employees render services in exchange for rights over shares ("equity-settled transactions") or entitlement to a future cash payment ("cash-settled transactions").

The cost of equity-settled transactions with employees is measured, where appropriate, with reference to the fair value at the date on which they are granted. Where options need to be valued an appropriate valuation model is applied. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The cost of cash-settled transactions is measured with reference to the fair value of the liability, which is taken to be the closing price of the Company's shares. Until the liability is settled it is remeasured at the end of each reporting period and at the date of settlement, with any changes in the fair value being recognised in the Income statement for the period. For more details please refer to Note 3.11 Provisions — Employee incentive schemes.

The cost of equity-settled transactions is recognised, along with a corresponding increase in equity, over the years in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date"). The cost of cash-settled transactions is recognised, along with a corresponding provision for the expected cash settlement, over the vesting period.

At each reporting date, the cumulative expense recognised for equity-settled transactions reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of management, will ultimately vest. Management's estimates are based on the best available information at that date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

4.10 Share Options and Other Equity Instruments (continued)

The Group has exposure in respect of cash-settled share-based payment transactions and share-based payment transactions with cash alternatives as defined by IFRS 2 "Share-Based Payment" in respect of bad leaver provisions in the Group's JSOS and the Cash LTIP (see Note 3.11 Provisions). National insurance contribution (NIC) obligations arising from cash-settled schemes and HMRC unapproved equity-settled schemes are treated as if they are cash settled, regardless of the actual cash/equity determination of the scheme itself.

Share Options and Other Equity Instruments

The Group operates various employee share incentive schemes, namely the Executive Share Ownership Scheme (the "ESOS"), the Joint Share Ownership Scheme (the "JSOS"), the Sharesave Scheme, the Long Term Incentive Plan ("LTIP"), the Growth Incentive Plan ("GIP") and the share incentive plan ("SIP"). The Group also operates a cash-settled incentive scheme, the Cash LTIP.

The total expense for the period relating to employee share-based payment plans was £9.8 million (2014: £6.0 million), of which £7.7 million (2014: £4.4 million) related to equity-settled share-based payment transactions and £2.1 million (2014: £1.6 million) as a provision for the payment of employers' NIC upon allotment of HMRC unapproved equity-settled share schemes and for the Cash LTIP (see Note 3.11 Provisions for further details).

(a) ESOS

The Group's ESOS is an equity-settled share option scheme approved by HMRC. Options have also be granted under the terms of HMRC's schedule, which is not approved. The ESOS was established by Ocado in 2001.

Under the ESOS, Ocado or the trustees of an employee trust may grant options over shares in the Company to eligible employees. The eligible employees to whom options are granted and the terms of such options will be determined by the Directors of Ocado or the trustees. The employees who are eligible to participate in the ESOS are all Ocado's Executive Directors and employees, including the employees of the Company's subsidiaries. Options are not transferable. The exercise price of options may not be less than the market value of the Company's shares on the date of grant. If the trustees or the Directors have determined that the exercise of an option will be satisfied by the issue of ordinary shares, the exercise price may also not be less than the nominal value of ordinary shares.

The Directors of Ocado or the trustees may impose a performance target and any further condition determined to be appropriate on the exercise of an option. In most cases any performance target must be measured over a period of at least three years. There are currently no options granted which are subject to performance targets that have not yet been met. The vesting period for the ESOS is three years. If the options remain unexercised after a period of ten years from the date of grant or the employee leaves the Group, the options expire (subject to a limited number of exceptions).

4.10 Share Options and Other Equity Instruments (continued)

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

	Year of Issue	**29 November 2015**	**Exercise Price (£)**	30 November 2014	Exercise Price (£)	Exercise Period
Approved						
	2005	**—**	**1.00**	85,333	1.00	31/05/08–29/11/15
	2005	**—**	**1.15**	4,782	1.15	31/05/08–30/05/15
	2006	**2,298**	**1.40**	8,086	1.40	31/05/09–30/05/16
	2006	**4,920**	**1.50**	5,960	1.50	30/11/09–29/11/16
	2007	**59,901**	**1.50**	107,527	1.50	31/05/10–29/11/17
	2008	**24,134**	**1.35**	26,570	1.35	31/05/11–30/05/18
	2008	**28,123**	**1.20**	52,358	1.20	30/11/11–29/11/18
	2009	**34,121**	**1.20**	49,039	1.20	31/05/12–30/05/19
	2009	**140,097**	**1.35**	201,311	1.35	02/11/12–29/11/19
	2010	**191,579**	**1.65**	230,958	1.65	30/06/13–29/06/20
	2011	**78,221**	**1.89**	125,269	1.89	19/07/14–18/07/21
	2011	**200,629**	**2.55**	265,581	2.55	14/02/14–13/02/21
	2012	**186,535**	**0.85**	372,278	0.85	27/06/15–26/06/22
	2012	**297,763**	**1.03**	681,389	1.03	21/02/15–13/02/22
	2012	**571,661**	**1.05**	817,864	1.05	09/03/15–08/03/22
	2013	**532,640**	**1.28**	661,462	1.28	05/03/16–04/03/23
	2013	**156,894**	**3.02**	210,343	3.02	08/07/16–07/07/23
	2014	**53,553**	**5.10**	65,585	5.10	05/02/14–04/02/24
	2014	**415,951**	**4.84**	453,353	4.84	17/03/14–16/03/24
	2014	**—**	**3.36**	1,278	3.36	01/08/14–31/07/24
	2015	**459,138**	**3.77**	—	—	13/03/15–12/03/25
	2015	**22,980**	**4.46**	—	—	01/07/15–30/06/25
	2015	**45,448**	**4.39**	—	—	10/07/15–09/07/25
Total Approved Options		**3,506,586**		4,426,326		
Non-Approved						
	2005	**—**	**1.15**	354,150	1.15	16/05/08–29/11/15
	2007	**50,833**	**1.50**	50,833	1.50	31/05/10–30/05/17
	2009	**122,600**	**1.20**	122,600	1.20	31/05/12–30/05/19
	2012	**124,126**	**1.05**	135,166	1.05	09/03/15–08/03/22
	2014	**12,030**	**3.27**	13,512	3.27	08/08/14–07/08/24
	2014	**29,962**	**3.36**	29,962	3.36	01/08/14–31/07/24
	2014	**24,516**	**4.84**	25,756	4.84	17/03/14–16/03/24
	2015	**30,901**	**3.77**	—	—	13/03/15–12/03/25
	2015	**18,622**	**4.46**	—	—	01/07/15–30/06/25
	2015	**19,649**	**4.39**	—	—	10/07/15–09/07/25
Total Unapproved Options		**433,239**		731,979		
Total		**3,939,825**		5,158,305		

4.10 Share Options and Other Equity Instruments (continued)

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

	Year of Issue	29 November 2015 Number of Share Options	29 November 2015 Exercise Price (£)	30 November 2014 Number of Share Options	30 November 2014 Exercise Price (£)	Exercise Period
	2005	—	1.15	31,116	1.15	31/05/08 – 30/05/15
	2009	139,600	1.20	139,600	1.20	31/05/12 – 30/05/19
Total options subject to performance criteria		139,600		170,716		

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

	29 November 2015 Number of Share Options	29 November 2015 Weighted Average Exercise Price (£)	30 November 2014 Number of Share Options	30 November 2014 Weighted Average Exercise Price (£)
Outstanding at the beginning of the period	5,158,305	1.73	5,932,790	1.42
Granted during the period	638,176	3.88	603,779	4.75
Forfeited during the period	(366,445)	2.29	(522,409)	1.66
Exercised during the period	(1,490,211)	1.18	(855,855)	1.73
Outstanding at the end of the period	3,939,825	2.24	5,158,305	1.73
Exercisable at the end of the period	2,117,541	1.32	1,690,357	1.55

Since the Company's Admission, the market value of the Company's shares at each option grant date was taken to be the closing mid-market price of the shares on the day prior to issuance. Prior to the Admission, the market value of the Company's shares was derived based on the market value of similar companies and by taking into account transactions with shareholders during the relevant period. The Share Valuation Office of HMRC has confirmed in correspondence that in respect of options granted prior to Admission, the exercise price was not less than the market value of the Company's shares at each option grant date.

For exercises during the period, the weighted average share price at the date of exercise was £3.89 (2014: £4.64).

In determining the fair value of the share options granted during the period, the Black–Scholes Option Pricing Model was used with the following inputs:

	29 November 2015	30 November 2014
Weighted average share price	£ 3.88	£ 4.75
Weighted average exercise price	£ 3.88	£ 4.75
Expected volatility	0.40	0.40
Weighted expected life — years	3.00	3.00
Weighted average risk-free interest rate	0.8%	1.2%
Expected dividend yield	0.0%	0.0%

Given the immaturity of the Company's share history, the expected volatility was determined by considering the historic performance of the shares of a basket of companies similar to and including the Company. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. All share awards under the ESOS are equity-settled, apart from employer's NIC due on unapproved ESOS awards which is treated as cash-settled.

4.10 Share Options and Other Equity Instruments (continued)

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

	29 November 2015			30 November 2014		
	Exercise Price (£)	**Number of Share Options**	**Weighted Average Remaining Contractual Life (years)**	Exercise Price (£)	Number of Share Options	Weighted Average Remaining Contractual Life (years)
	0.85	**186,535**	**6.6**	0.85	372,278	7.6
	1.00	**—**	**—**	1.00	85,333	0.9
	1.03	**297,763**	**6.2**	1.03	681,389	7.2
	1.05	**695,787**	**6.3**	1.05	953,030	7.3
	1.15	**—**	**—**	1.15	358,932	0.5
	1.20	**184,844**	**3.4**	1.20	223,997	4.4
	1.28	**532,640**	**7.3**	1.28	661,462	8.3
	1.35	**164,231**	**3.8**	1.35	227,881	4.8
	1.40	**2,298**	**0.5**	1.40	8,086	1.5
	1.50	**115,654**	**1.5**	1.50	164,320	2.6
	1.65	**191,579**	**4.6**	1.65	230,958	5.6
	1.89	**78,221**	**5.6**	1.89	125,269	6.6
	2.55	**200,629**	**5.2**	2.55	265,581	6.2
	3.02	**156,894**	**7.6**	3.02	210,343	8.6
	3.27	**12,030**	**8.7**	3.27	13,512	9.7
	3.36	**29,962**	**8.7**	3.36	31,240	9.7
	3.77	**490,039**	**9.3**	—	—	—
	4.39	**65,097**	**9.6**	—	—	—
	4.46	**41,602**	**9.6**	—	—	—
	4.84	**440,467**	**8.3**	4.84	479,109	9.3
	5.10	**53,553**	**8.2**	5.10	65,585	9.2
Outstanding at the end of the period		**3,939,825**			5,158,305	

(b) JSOS

The JSOS is an executive incentive scheme which was introduced to incentivise and retain its Executive Directors and select members of senior management of the Group (the "Participants"). It is a share ownership scheme under which the Participants and Appleby Trust (Jersey) Limited, the Employee Benefit Trust Trustee, held at the Balance sheet date separate beneficial interests in 34,770,981 (2014: 34,810,561) ordinary shares which represents 5.6% (2014: 5.6%) of the issued share capital of the Company. Of these ordinary shares, 1,994,071 (2014: 1,453,254) are held by the Employee Benefit Trust on an unallocated basis.

Nature of Interests

Interests take the form of a restricted interest in ordinary shares in the Company (the "Interest"). An Interest permits a Participant to benefit from the increase (if any) in the value of a number of ordinary shares in the Company ("Shares") over specified threshold amounts. In order to acquire an Interest, a Participant must enter into a joint share ownership agreement with the Employee Benefit Trust Trustee, under which the Participant and the Employee Benefit Trust Trustee jointly acquire the Shares and agree that once all vesting conditions have been satisfied the participant is awarded a specific number of Shares equivalent to the benefit achieved, or at their discretion, when the Shares are sold, the Participant has a right to receive a proportion of the sale proceeds insofar as the value of the Shares exceeds the threshold amount.

4.10 Share Options and Other Equity Instruments (continued)

Participants

In prior periods Interests were acquired by the Participants under the first JSOS scheme ("JSOS1") in 32,476,700 Shares at an issue price of £1.50 per share, and the second group of Participants' JSOS scheme ("JSOS2") in 3,990,799 Shares at an issue price of £1.70 per share. In prior periods, 2,953,675 Shares in which interests of Participants have lapsed were reallocated to the third group of Participants under the JSOS scheme ("JSOS3"). For JSOS1 and JSOS2 there are four tranches, each with their own hurdle price. For JSOS3 there are two tranches, each with their own hurdle price.

JSOS1				JSOS2				JSOS3			
Tranche	Vesting Date	Hurdle Value	% of issue Price	Tranche	Vesting Date	Hurdle Value	% of Issue Price	Tranche	Vesting Date	Hurdle Value	% of Market Price
1 (2011)	Jan–11	£1.73	115%	1 (2012)	Jun–12	£1.96	115%	1 (2013)	Jan–13	£1.70	230% –265%
2 (2012)	Jan–12	£1.91	127%	2 (2013)	Jun–13	£2.15	127%	2 (2014)	Jan–14	£1.80	244% –280%
3 (2013)	Jan–13	£2.08	139%	3 (2014)	Jun–14	£2.36	139%	—	—	—	—
4 (2014)	Jan–14	£2.28	152%	4 (2015)	Jun–15	£2.59	152%	—	—	—	—

For JSOS1, Participants were required to purchase their Interest for 2.0% of the issue price. For JSOS2, the price was in a range of 7.1% to 10.8%, and for JSOS3, the price was in a range of 1.47% to 1.70% of the share price at date of issue. When an Interest vests, the Employee Benefit Trust Trustee will transfer Shares to the Participant of equal value to the Participant's Interest or the Shares will be sold and the Employee Benefit Trust Trustee will account to the Participant for the balance, i.e. the difference between the sale proceeds (less expenses) and the hurdle price.

Vesting Conditions

The vesting of the Interests granted to Participants is subject to a time vesting condition, as detailed above.

The fair value of the Interests awarded under the JSOS was determined using the Black–Scholes Option Pricing Model. As per IFRS 2 "Share-Based Payment", market-based vesting conditions and the share price target conditions in the JSOS have been taken into account in establishing the fair value of the equity instruments granted. Other non-market or performance-related conditions were not taken into account in establishing the fair value of equity instruments granted; instead, these non-market vesting conditions are taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount so that ultimately the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that will eventually vest.

In determining the fair value of the Interests granted, the Black–Scholes Option Pricing Model was used with the following inputs:

JSOS1	Tranche 1	Tranche 2	Tranche 3	Tranche 4
Weighted average share price	£1.35	£1.35	£1.35	£1.35
Weighted average exercise price	£1.73	£1.91	£2.08	£2.28
Expected volatility	0.25	0.25	0.25	0.25
Weighted expected life — years	0.91	1.91	2.91	3.91
Risk-free interest rate	3.5%	3.5%	3.5%	3.5%
Expected dividend yield	0.0%	0.0%	0.0%	0.0%

JSOS2	Tranche 1	Tranche 2	Tranche 3	Tranche 4
Weighted average share price	£1.70	£1.70	£1.70	£1.70
Weighted average exercise price	£1.96	£2.15	£2.36	£2.59
Expected volatility	0.25	0.25	0.25	0.25
Weighted expected life — years	1.0	2.0	3.0	4.0
Risk-free interest rate	3.5%	3.5%	3.5%	3.5%
Expected dividend yield	0.0%	0.0%	0.0%	0.0%

4.10 Share Options and Other Equity Instruments (continued)

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

As the Interests in JSOS3 were reallocated from lapsed Interests in JSOS1 and JSOS2, the fair value of those Interests had been calculated in prior periods using the inputs disclosed in the tables above.

Details of the movement in the number of Interests in Shares during each period are as follows:

	29 November 2015		30 November 2014	
	Number of Interests in Shares	**Weighted Average Exercise Price (£)**	Number of Interests in Shares	Weighted Average Exercise Price (£)
Outstanding at the beginning of the period	**33,357,307**	**2.00**	33,795,922	1.99
Granted during the period	**—**	**—**	—	—
Forfeited during the period	**(540,817)**	**2.29**	—	—
Exercised during the period	**(39,580)**	**2.32**	(438,615)	2.02
Outstanding at the end of the period	**32,776,910**	**1.99**	33,357,307	2.00
Exercisable at the end of the period	**32,776,910**	**1.99**	33,503,642	1.98

(c) Non-Employee Share Options

Options to subscribe for ordinary shares and convertible preference shares have been granted by Ocado Limited to non-employees. These options are equity-settled, and do not have any vesting criteria. As a result of the Group's restructuring, these options are now held over ordinary shares in Ocado Group plc.

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

	29 November 2015		30 November 2014		
	Number of Share Options	**Exercise Price (£)**	Number of Share Options	Exercise Price (£)	Exercise Period
Jan–04	**435,300**	**1.03**	435,300	1.03	03/01/04–03/01/18
Outstanding at the end of the period	**435,300**		435,300		

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

	29 November 2015		30 November 2014	
	Number of Share Options	**Weighted Average Exercise Price (£)**	Number of Share Options	Weighted Average Exercise Price (£)
Outstanding at the beginning of the period	**435,300**	**1.03**	1,322,000	0.95
Granted during the period	**—**	**—**	—	—
Forfeited during the period	**—**	**—**	—	—
Exercised during the period	**—**	**—**	(886,700)	0.90
Outstanding at the end of the period	**435,300**	**1.03**	435,300	1.03
Exercisable at the end of the period	**435,300**	**1.03**	435,300	1.03

4.10 Share Options and Other Equity Instruments (continued)

The weighted average remaining contractual lives for outstanding non-employee share options are as follows:

	29 November 2015			30 November 2014		
	Exercise Price (£)	**Number of Share Options**	**Weighted Average Remaining Contractual Life (years)**	Exercise Price (£)	Number of Share Options	Weighted Average Remaining Contractual Life (years)
	1.03	**435,300**	**2.1**	1.03	435,300	3.1
Outstanding at the end of the period		**435,300**			435,300	

(d) Sharesave Scheme

In 2010 the Group launched the Ocado Group Sharesave Scheme ("SAYE"). This is an HMRC approved scheme and is open to any person that was an employee or officer of the Group at the launch date. Under the scheme, members save a fixed amount each month for three years. At the end of the three year period they are entitled to use these savings to buy shares in the Company at a price which is determined at launch date; 90% of the market value in the case of the Group's Sharesave Schemes SAYE2, SAYE3 and SAYE4.

At 29 November 2015 employees of the Company's subsidiaries held 2,273 (2014: 1,528) contracts in respect of options over 3,549,479 (2014: 3,789,044) shares. Details of the movement in the number of Sharesave options outstanding during each period are as follows:

	29 November 2015		30 November 2014	
	Number of Share Options	**Weighted Average Exercise Price (£)**	Number of Share Options	Weighted Average Exercise Price (£)
Outstanding at the beginning of the period	**3,789,044**	**1.67**	5,031,578	1.61
Granted during the period	**2,621,201**	**3.24**	—	—
Forfeited during in the period	**(458,162)**	**3.02**	(286,625)	2.37
Exercised during the period	**(2,402,604)**	**0.91**	(955,909)	1.16
Outstanding at the end of the period	**3,549,479**	**3.16**	3,789,044	1.67
Exercisable at the end of the period	**18,607**	**2.82**	22,347	1.39

(e) Long Term Incentive Plan

In 2013, the Group introduced an equity-settled long term incentive plan ("LTIP") as approved by the Remuneration Committee and shareholders, under which shares are conditionally awarded to Executive Directors and select members of senior management. The number of awards issued are calculated based on a percentage of the participants' salaries and will vest at the end of a period of three years from the grant date. The final number and proportion of awards expected to vest will depend on achievement of certain performance conditions. For the 2013 LTIP, the single performance condition is the Group's earnings before interest, tax and exceptional items ("EBIT") for the financial year ending November 2015 and for the 2014 LTIP, the performance conditions are the Group's revenue and profit/(loss) per share for the financial year ending November 2016. For the 2015 LTIP, there are four equally weighted performance conditions, which are operational efficiency and capital efficiency metrics related to the retails business and the platform business, the Group's retail business revenue and Group's retail business profit per share for the financial year ending December 2017.

The number of awards issued, adjusted to reflect the achievement of the performance conditions, will then vest during 2016 for the 2013 LTIP, 2017 for the 2014 LTIP and 2018 for the 2015 LTIP. Full vesting will only therefore occur where exceptional performance levels have been achieved and significant shareholder value created. An award will lapse if a participant ceases to be employed within the Group before the vesting date.

4.10 Share Options and Other Equity Instruments (continued)

A summary of the status of this LTIP as at 29 November 2015 and changes during the year is presented below:

	Number of Share Awards 29 November 2015	Number of Share Awards 30 November 2014
Outstanding at the beginning of the period	**5,087,848**	4,948,576
Granted during the period	**988,773**	672,808
Forfeited during the period	**—**	(533,536)
Outstanding at the End of the Period	**6,076,621**	5,087,848

There were no awards exercisable as at 29 November 2015 nor at 30 November 2014.

The Group recognised an expense of £6.1 million (2014: £3.8 million) related to these awards in the Consolidated income statement during the year. The expectation of meeting the performance criteria, based upon internal budgets and forecasts, was taken into account when calculating this expense.

(f) Chairman's Share Matching Award

In 2013, the Group introduced the equity-settled Chairman's Share Matching Award, under which a one-off award of restricted shares were awarded to the Chairman, Lord Rose, on assuming the role of Chairman.

The award condition is based on a personal investment of a minimum of 400,000 shares and continued membership of the Board. This will vest three years from when the award was approved by the Remuneration Committee. There is no performance criteria to which vesting is subject.

These shares are restricted from being sold while he is on the Board and the shares are not allowed to be sold until the first anniversary of his ceasing to be a member of the Board.

A summary of the status of this Chairman's Share Matching Award as at 29 November 2015 and changes during the year is presented below:

	Number of Share Awards 29 November 2015	Number of Share Awards 30 November 2014
Outstanding at the beginning of the period	**452,284**	452,284
Granted during the period	**—**	—
Outstanding at the end of the period	**452,284**	452,284

The Group recognised an expense of £0.4 million (2014: £0.4 million) related to this award in the Consolidated income statement during the year.

(g) Growth Incentive Plan

During the prior period, the Group introduced an equity settled growth incentive plan (GIP), under which nil cost shares were conditionally awarded to certain Executive Directors.

The final number and proportion of awards expected to vest will depend on achievement of a performance condition, being the growth in the Company's share price relative to the growth in the FTSE 100 Share Index over a five-year performance period.

These awards will vest in 2019. An award will lapse if a participant ceases to be employed within the Group before the vesting date.

4.10 Share Options and Other Equity Instruments (continued)

Performance will be assessed based on the three-month average share price of the Company and the FTSE 100 Share Index at the end of the performance period in comparison to the three-month average share price of the Company and the FTSE 100 Share Index prior to the start of the performance period.

In determining the fair value of the awards granted, a unique Monte Carlo model was used with the following inputs:

Weighted average share price	**£3.19**
Value of FTSE 100 index	**6,389.25**
Expected correlation	**29%**
Expected volatility of Company	**40%**
Expected volatility of FTSE 100 index	**16%**
Weighted expected life — years	**5.0**
Risk-free rate	**1.96%**
Expected dividend yield	**0%**
Valuation model	**Monte Carlo Pricing**

Expected correlation was determined with reference to the historic share price correlation of the shares in the Company and the FTSE 100 Index over a period commensurate with the terms of the award (i.e. five years).

Expected volatility of the Company was determined by comparing the Company to others of a similar size or which operate in a similar industry. Expected volatility of the FTSE 100 Index was determined by reference to its historic volatility over a period commensurate with the terms of the award (i.e. five years). Volatility is a key estimate in determining the fair value of the GIP award, as the overall charge is most sensitive to changes in this assumption. Management have had regard to an appropriate range of alternative volatility assumptions, and concluded that a change in the volatility within this range would not have a material impact on the financial statements.

The use of the Monte Carlo model and calculation of the associated input parameters requires judgement. Therefore management obtained professional advice to assist in determining the fair value of the awards granted.

A summary of the GIP as at 29 November 2015 and changes during the year is presented below:

	Number of Share Awards
Outstanding at 1 December 2013	—
Granted during the year	6,000,000
Outstanding at 30 November 2014	6,000,000
Granted during the year	—
Outstanding at 29 November 2015	**6,000,000**

There were no awards exercisable as at 29 November 2015 (30 November 2014: None).

The Group recognised an expense of £1.3 million (2014: £0.9 million) related to these awards in the Consolidated income statement during the year. The expectation of meeting the performance criteria was taken into account when calculating this expense.

(h) Share Incentive Plan

During the prior year, the Group introduced the Ocado Share Incentive Plan ("SIP"). This HMRC approved scheme provides all employees, including Executive Directors, the opportunity to receive and invest in Company shares. All SIP shares are held in a SIP Trust, administered by Yorkshire Building Society.

4.10 Share Options and Other Equity Instruments (continued)

There are two elements in the plan - the Buy As You Earn ("BAYE") arrangement and the Free Share Award. Under the BAYE, participants can purchase shares in the Company ("Partnership Shares") each month using contributions from pre-tax pay, subject to an upper limit. For every seven shares purchased, the Company gifts the participant one free share ("Matching Shares").

Under the Free Shares Award shares are given to eligible employees, as a proportion of the annual base pay, subject to a maximum. Eligible employees are those with six months' service as at the grant date.

For Partnership Shares, eligible employees are those with three months' service. Partnership shares can be withdrawn from the Plan Trust at any time; however, Matching Shares and Free Shares are subject to a three-year holding period, during which continuous employment within the Group is required. The Matching Shares will be forfeited if any corresponding Partnership Shares are removed from the Plan Trust within this three-year period, or if the participant leaves Ocado.

A summary of the status of the SIP as at 29 November 2015 and changes during the year is presented below:

	Partnership Shares	Matching Shares	Free Shares	Number of Share Awards Total
Outstanding at 1 December 2013	—	—	—	—
Awarded during the period	53,410	7,283	400,258	460,951
Forfeited during the period	—	(94)	(17,115)	(17,209)
Released during the period	(696)	—	(54)	(750)
Outstanding at 30 November 2014	52,714	7,189	383,089	442,992
Unrestricted at 30 November 2014	52,714	—	—	52,714

	Partnership Shares	**Matching Shares**	**Free Shares**	**Number of Share Awards Total**
Outstanding at 30 November 2014	**52,714**	**7,189**	**383,089**	**442,992**
Awarded during the period	**139,790**	**19,968**	**452,018**	**611,776**
Forfeited during the period	**—**	**(2,661)**	**(88,642)**	**(91,303)**
Released during the period	**(19,346)**	**(46)**	**(2,459)**	**(21,851)**
Outstanding at 29 November 2015	**173,158**	**24,450**	**744,006**	**941,614**
Unrestricted at 29 November 2015	**173,158**	**—**	**654**	**173,812**

In the year, the Group recognised an expense of £0.3 million (2014: £0.1 million) related to these awards. The expectation of meeting the holding period was taken into account when calculating this expense.

4.11 Capital Management

The Board's objective is to maintain an appropriate balance of debt and equity financing to enable the Group 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 Group's net assets at the end of the period were £241.9 million (2014: £218.2 million) and it had net debt of £127.0 million (2014: £99.4 million).

The main areas of capital management revolve around working capital management and compliance with externally imposed financial covenants. The Group's objectives when managing capital are to safeguard its ability to continue as a going concern and balance the needs of the Group to grow, whilst operating with sufficient headroom within its bank covenants.

4.11 Capital Management (continued)

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 Group's approach to capital management during the period.

In the prior period, the Group entered into a new unsecured three-year Revolving Credit Facility (RCF) with Barclays, HSBC, RBS and Santander. During the current period the facility was extended by a further two years, the amount was increased from £100 million to £210 million and certain covenants were loosened. Throughout the period, the Group has complied with all covenants imposed by lenders. In addition, a key aspect of capital management was the strategic operating agreement with Morrisons and the operation of MHE JVCo, a Company jointly owned with Morrisons, discussed in Note 5.4.

Given the Group's commitment to expand the business and the investment required to complete CFC3 and future CFCs, the declaration and payment of a dividend is not part of the short-term capital management strategy of the Group.

At the Balance sheet date, the Group's undrawn facilities and cash and cash equivalents were as follows:

	Notes	**29 November 2015 £m**	30 November 2014 £m
Total facilities available		**409.6**	288.7
Facilities drawn down†	4.2	**(172.8)**	(175.7)
Undrawn facilities at end of period		**236.8**	113.0
Cash and cash equivalents gross of drawn overdraft facility	3.9	**45.8**	76.3
		282.6	189.3

† In the prior period, there were £1.1 million of capitalised transaction costs relating to the £100 million revolving credit facility entered into with Barclays, HSBC, RBS and Santander. In the current period transaction costs of £2.5 million relating to the facility amendment are capitalised.

Section 5 — Other notes

5.1 Subsidiaries

The subsidiary undertakings and significant undertakings of the Company as at period end are set out below. A schedule of interests in all undertakings is filed with the annual return.

Name	Principal Activity	Proportion of Share Capital Held (direct/indirect)	Country of Incorporation
Ocado Holdings Limited	Holding company	100%	England and Wales
Ocado Retail Limited (formerly Ocado Limited)	Retail	100%	England and Wales
Ocado Information Technology Limited	Intellectual property	100%	Republic of Ireland
Ocado Polska Sp. Z.o.o.	Technology	100%	Poland
Ocado Innovation Limited (formerly Ocado Technology Limited)	Technology	100%	England and Wales
Ocado Operating Limited	Logistics and Distribution	100%	England and Wales
Ocado Central Services Limited	Business Services	100%	England and Wales
Ocado Innovation Holdings Limited	Non-trading company	100%	England and Wales

5.1 Subsidiaries (continued)

Name	Principal Activity	Proportion of Share Capital Held (direct/indirect)	Country of Incorporation
Jalapeno Partners Limited	Non-trading company	100%	England and Wales
Last Mile Technology Limited	Non-trading company	100%	England and Wales
Speciality Stores Limited (formerly Specialty Stores Limited)	Trading company	100%	England and Wales
Marie Claire Beauty Limited (formerly Newco Beauty Limited)	Retail	100%	England and Wales
Paws & Purrs Limited	Retail	100%	England and Wales
MHE JVCo Limited	Trading company	50%	England and Wales
Paneltex Limited	Manufacturing	25%	England and Wales

In accordance with Section 410(2)(a) of the Companies Act, a full list of the then subsidiaries was annexed to the 2014 annual return and submitted to Companies House. In accordance with the exemption under Section 479A of the Companies Act the standalone financial statements for a subsidiary, Paws & Purrs Limited, are not to be audited for the year ended 29 November 2015, but are included in the Group's consolidated financial statements in the period.

The Group has effective control over the financial and operating activities of the Ocado Cell in Atlas Insurance PCC Limited, an insurance company incorporated in Malta and therefore consolidates the Ocado Cell in its financial statements in accordance with IFRS 10 "Consolidated Financial Statements". The Group uses the Ocado Cell to provide self-insurance for its vehicle fleet and public and product liability claims.

5.2 Commitments

Capital Commitments

Contracts placed for future capital expenditure but not provided for in the financial statements are as follows:

	29 November 2015 £m	30 November 2014 £m
Land and buildings	**3.4**	2.9
Property, plant and equipment	**18.9**	20.0
Total capital expenditure committed at the end of the period	**22.3**	22.9

Of the total capital expenditure committed at the current period end, £14.4 million relates to new CFCs, £1.5 million to existing CFCs, £1.5 million to fleet costs and £1.2 million relates to technology related projects.

5.2 Commitments (continued)

Operating Lease Commitments

The Group leases a number of offices, facilities and equipment under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights.

At 29 November 2015 the ageing profile of future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	29 November 2015 £m	30 November 2014 £m
Due within one year	**14.2**	12.0
Due after one year but less than five	**44.8**	34.6
Due after five years	**136.7**	123.7
Total commitment	**195.7**	170.3

5.3 Contingent Liabilities

The Group has contingent liabilities in respect of legal claims arising in the ordinary course of business, all of which the Group expects will be either covered by its insurances or will not be material in the context of the Group's financial position.

5.4 Related Party Transactions

Key Management Personnel

Only the Executive and Non-Executive Directors are recognised as being key management personnel. It is the Board which has responsibility for planning, directing and controlling the activities of the Group. The key management compensation is as follows:

	29 November 2015 £m	30 November 2014 £m
Salaries and other short-term employee benefits	**3.2**	3.0
Salaries and other short-term employee benefits in respect of Directors retired during the year	**—**	0.2
Share-based payments	**5.6**	3.7
	8.8	6.9

Further information on the remuneration of Directors and Directors' interests in ordinary shares of the Company are disclosed in the Directors' Remuneration Report on pages 80 to 117.

Other related party transactions with key management personnel made during the period related to the purchase of professional services and amounted to £6,000 (2014: £15,000). All transactions were on an arm's length basis and no period end balances arose as a result of these transactions.

At the end of the period, there were no amounts owed by key management personnel to the Group (2014: None).

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

5.4 Related Party Transactions (continued)

Investment

The following transactions were carried out with Paneltex Limited, a company incorporated in the UK in which the Group holds a 25% interest. Further information on the Group's relationship with Paneltex Limited is provided in Note 3.3.

	29 November 2015 £m	30 November 2014 £m
Purchase of goods		
— Plant and machinery	**0.1**	—
— Consumables	**0.5**	0.4
	0.6	0.4

Indirect transactions, consisting of the purchase of plant and machinery through some of the Group's finance lease counterparties, were carried out with Paneltex Limited to the value of £12.2million (2014: £7.2 million). At period end, the Group owed Paneltex £31,000 (2014: £19,000).

Joint Venture

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

	29 November 2015 £m	30 November 2014 £m
Capital contributions made to MHE JVCo	**—**	6.5
Dividend received from MHE JVCo	**8.1**	—
Reimbursement of supplier invoices paid on behalf of MHE JVCo	**6.1**	34.9
Lease of assets from MHE JVCo	**3.0**	31.0
Capital element of finance lease instalments paid to MHE JVCo	**14.3**	15.7
Interest element of finance lease instalments accrued or paid to MHE JVCo	**6.2**	5.4

During the period the Group paid lease instalments (including interest) of £20.5 million (2014: £21.1 million) to MHE JVCo.

Of the £20.5 million, £10.6 million (2014: £8.9 million) was recovered directly from Morrisons in the form of Other Income and a further £8.1 million (2014: £nil) was received from MHE JVCo by way of a dividend. The remaining £1.8 million (2014: £12.2 million) represents capital expenditure requirements of MHE JVCo for which no additional funding was required from Ocado. The net result is the termination of £14.3 million of MHE JVCo debt during the period (2014: £15.7 million) with no corresponding net cash outflow.

In the current period, the Group made no capital contributions to MHE JVCo (2014: £6.5 million).

Included within trade and other receivables is a balance of £5.6 million owed by MHE JVCo (2014: £3.5 million). £1.0 million of this relates to a finance lease accrual which is included within other receivables (2014: £2.7 million). £4.6 million (2014: £0.8 million) relates to capital recharges.

Included within trade and other payables is a balance of £1.0 million owed to MHE JVCo (2014: £0.8 million).

Included within obligations under finance leases is a balance of £119.5 million owed to MHE JVCo (2014: £130.8 million).

No other transactions that require disclosure under IAS 24 "Related Party Disclosures" 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 Group since 29 November 2015.

INDEPENDENT AUDITORS' REPORT
to the members of Ocado Group plc

REPORT ON THE GROUP FINANCIAL STATEMENTS

OUR OPINION

In our opinion, Ocado Group plc's group financial statements (the "financial statements"):

- give a true and fair view of the state of the group's affairs as at 30 November 2014 and of its profit and cash flows for the 52 week period ("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 and Article 4 of the IAS Regulation.

WHAT WE HAVE AUDITED

Ocado Group plc's financial statements comprise:

- the consolidated balance sheet as at 30 November 2014;
- the consolidated income statement and consolidated statement of comprehensive income for the period then ended;
- the consolidated statement of cash flows for the period then ended;
- the consolidated 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.

Certain required disclosures have been presented elsewhere in the Annual Report and Accounts, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

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

OUR AUDIT APPROACH

OVERVIEW

- Overall group materiality: £4 million which represents 0.4% of revenue.
- All active trading companies located in the UK, whose results taken together account for all material balances and line items within the consolidated financial statements, were audited by the UK engagement team.
- The UK engagement team also audited the group's joint venture with Wm Morrisons Supermarkets Plc ("Morrisons").
- Commercial income.
- Capitalisation of internal development costs.
- Share based payments.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Commercial income	***Commercial income***
As described in the Audit Committee Report on page 76 and in the critical accounting estimates and judgements and accounting policies sections in the notes to the accounts (page 147), Ocado has three main streams of commercial income; promotional support; media income; and volume rebates (stated in order of value, highest to lowest). This remains an area of focus due to the quantum of income recorded under these arrangements and its significance in relation to the result for the period. It is also an area of heightened focus in light of recent market announcements. The amount to be recognised in the income statement for elements of commercial income requires management to apply judgement based on the contractual terms in place with suppliers and estimates of amounts the group is entitled to where transactions span the financial period-end. Promotional support and media income arrangements are typically structured to last for a four week duration and are settled with suppliers within a short period following the relevant service or promotion having been fulfilled. This income stream involves high volume, lower value arrangements and requires limited judgement or estimation by management in determining the amount that the group is entitled to. Notwithstanding the limited judgement involved, the magnitude of this income is highly material. Our focus was therefore whether an arrangement or agreement for the promotional support and media income recognised existed, whether the relevant promotion or media advertising had taken place and whether the income recognised was recorded in the appropriate period. The third stream of commercial income, namely volume rebates, is the one which, in our view, involves the most judgement. Volume rebates are earned both on supply arrangements managed by Waitrose (as the group's supply partner) under the Waitrose sourcing agreement referred to on page 10 and on arrangements with direct suppliers to Ocado. Rebates earned under Waitrose managed supply arrangements are material to the group's results. Entitlement to income is based on the level of purchasing activity for the combined Ocado and Waitrose businesses, a judgement that is made more complex by the fact that the Waitrose accounting period end is two months later than that of Ocado.	Promotional support and media income Our approach, specifically in relation to promotional income, was underpinned by testing key system controls, including those used to determine the amount of items sold under the terms of a supplier funded promotion arrangement. We determined that the testing of these controls provided us with audit evidence that promotional support income had been recorded appropriately and in the correct period. Our testing for promotions also included checking the computation of the amounts billed to suppliers. We additionally reconciled the total value of promotion income recorded in Ocado's "Promotions" system for the period to the total value recognised in the general ledger and found no material reconciling items. We independently confirmed the terms of a sample of individual promotion and media agreements, covering both the duration of the promotion / campaign and the quantum of promotional support per unit sold / the price charged for the campaign, directly with a range of suppliers, including requesting confirmation of items invoiced in the period and for amounts accrued at the period end, checking that the amount recognised was recorded in the correct period based on the suppliers' confirmation of details of the period the funding related to. Similar to promotional income, we reconciled the total value of amounts recorded in Ocado's "Media" booking system to the total value of media income recorded in the financial statements and found no material reconciling items. We also selected a sample of individual media adverts in the period and checked that income relating to these adverts was recognised in the period.

Area of focus	How our audit addressed the area of focus
Commercial income (continued)	***Volume rebates***
As Waitrose negotiates and agrees the contracts with suppliers, Ocado has to determine income to be recorded based on interim payments received during the year and estimates provided by Waitrose for amounts due at the period end. The key judgement that we therefore focus on in the calculation of Ocado's share of rebates due from Waitrose is the estimate of amounts to be accrued at the period end, based on volume estimates prepared by Waitrose.	In relation to income due from Waitrose under the terms of their supply arrangements, we visited the Waitrose head office and met with the members of the Waitrose Commercial Finance team responsible for determining rebates due to Ocado. We obtained and read a sample of supplier contracts negotiated by Waitrose and checked that there was an accrual for amounts due to Ocado in relation to these agreements, the accuracy of which we tested as set out below. We also considered how Waitrose determine their overall supplier volume rebate income and the associated Ocado share of this. We agreed a sample of amounts invoiced by Ocado to Waitrose during the period by testing the settlement of these amounts by Waitrose. With respect to accrued income recognised as due from Waitrose at the period end, we obtained an independent confirmation from Waitrose at the period end as to their estimate of the uninvoiced amount due to Ocado for the full year. We checked that the amounts accrued by Ocado were consistent with the estimates and amounts confirmed by Waitrose. We also assessed the historical accuracy of estimates made by Ocado in relation to the estimate of the full year amount due to them from Waitrose noting that historic estimates in the last two years had proved highly accurate, based on amounts finally invoiced and settled. ***Overall commercial income*** In relation to the overall amounts recognised for all commercial income streams, we analysed the total amounts recognised each month for each stream, and compared these amounts to the equivalent month in the previous two years, to identify whether there were any unusual trends of significance in the amounts or timing of commercial income recognised in each period. No such items were identified.

Area of focus

Capitalisation of internal development costs

As explained on pages 28 and 29, Ocado develops a significant amount of the software used to operate the systems and technology used in the business and are further developing additional technology to increase the efficiency and capacity of existing operations, and to support future international expansion. In the current period, as set out in notes 3.1 and 3.2 £21.6m of internal development costs have been capitalised within Intangible Assets and Property, Plant and Equipment.

We focussed on this area due to the size of the internal costs capitalised, and the fact that there is judgement involved in assessing whether the criteria set out in the accounting standards required for capitalisation of such costs have been met, particularly:

- The technical feasibility of the project; and
- The likelihood of the project delivering sufficient future economic benefits.

We had particular regard to the fact that the group is investing in new technology to support future expansion both in the UK and internationally, and therefore we focussed on whether the economic benefits of the various projects under development supported the amounts capitalised. This specifically included:

- Projects relating to the re-platforming of the group's technology to enable it to improve its ability to develop and operate and to expand internationally, where the economic benefit of a successful launch is only achieved in the longer term and is inherently, therefore, more judgemental, and
- Projects where there are significant judgements made as to the level of future economic benefits due to the innovative nature of some of the technology being developed.

As part of our work we also focussed on management's judgements regarding whether capitalised costs were of a developmental rather than research nature (which would result in the costs being expensed rather than capitalised); and whether costs, including employment (payroll) costs, were directly attributable to relevant projects.

In light of the development of new software and systems, we also focussed on whether the carrying value of existing capitalised software or systems was impaired.

How our audit addressed the area of focus

We obtained a breakdown, by value, of all individual internal development projects capitalised in the period and reconciled this to the amounts recorded in the general ledger, identifying no significant reconciling differences.

We tested all projects where capitalised costs were in excess of £250,000, together with a sample of smaller projects from the remaining population, as follows:

- We obtained explanations from management of why the project was considered to be capital in nature, in terms of how the specific requirements of the relevant accounting standards and other guidance, most notably of IAS 38, IAS 16 and SIC 32 (Web Site Costs) were met. We also conducted interviews with individual project development managers responsible for the projects selected to corroborate these explanations and to obtain an understanding of the specific projects to enable us to independently assess whether the projects met all the criteria for capitalisation set out in accounting standards. We found the explanations obtained from individual project managers to be consistent with those obtained from management, our understanding of developments in the business and supported management's assessment that the costs met the relevant capitalisation criteria.
- We challenged both management and the relevant development project managers as to whether the development of new software or systems superseded or impaired any of the existing assets on the balance sheet. We noted that, as disclosed in notes 3.1 and 3.2 an impairment charge of £2.6m was recorded in this regard, but did not identify any further indicators of impairment. We also applied our own understanding of both new and existing projects and considered whether, in our view, there were any projects where the software is no longer in use or its life was shortened by any development activity. We found no such items.

To determine whether costs were directly attributable to projects, we obtained listings of hours worked on individual projects and selected a sample of the individual hours recorded and met with the project manager of the relevant project to obtain an understanding of the project being worked upon and to confirm that the employee selected for testing was involved on the project and to ascertain the nature of the work they had been performing. We also checked the hours charged equated to the value

Area of focus	How our audit addressed the area of focus
Share based payments The group has in place a number of different share incentive schemes which are accounted for in accordance with IFRS 2 “Share based payments”. These range from non-complex ‘vanilla’ share option plans to more complex Executive Director long term incentive schemes, details of which are explained in note 4.12. The accounting treatment differs for each scheme depending on the details of the individual scheme. For certain schemes, namely the “Growth Incentive Plan” and the “Long Term Incentive Plans”, determining the appropriate accounting charge for the period requires various judgments to be made including the likelihood of specific performance criteria being met (e.g., ‘Revenue’ and ‘Earnings Before Interest and Tax’ targets and share price growth) which determines whether an award will crystallise, and the level of payout that will be achieved. We focussed on understanding the details of each scheme, the applicable criteria related to vesting, and assessing management’s judgements around estimated achievement of the relevant performance criteria.	of costs capitalised, by applying the standard charge out rate per employee to the timesheet hours, without exception. We also tested the standard hourly rates, referred to above, that had been applied to the hours identified as appropriate for capitalisation by reconciling these to the hourly rate equivalent of the average salary of Ocado’s technology development team. We agreed that the rates applied reflected an appropriate amount of internal development employee costs in each instance with no significant matters arising. We obtained and read the contractual documentation underpinning all new schemes which came into force in the current period, in particular, the Growth Incentive Plan (“GIP”) described in note 4.12, and updated our understanding of existing schemes. We discussed with management the accounting that they had applied, and together with our own independent evaluation of the contractual documentation, evaluated whether the accounting charge (where applicable) and disclosures in relation to each scheme were in accordance with IFRS 2, and determined that the treatment and disclosures relating to the schemes was consistent with the accounting requirements. We also re-performed the related calculations to check their arithmetical accuracy with no exceptions identified. Where the accounting charge to be recorded was dependent on judgement around the achievement of various performance criteria, including an assessment of achieving future targets, we challenged management’s assumptions and compared them to the group’s detailed business plans and forecasts and external market data, which we found to be materially consistent. We also had regard to the level of historical accuracy of management’s projections. In addition, particularly in relation to the volatility assumption used in determining the GIP charge, we assessed the impact on the charge recorded if key judgements were adjusted to reflect a range of alternative potential outcomes. In light of the above, we found that the judgements made by management were reasonable and that the charge booked was not materially sensitive to what we considered to be a range of realistically possible alternative outcomes as to the levels of performance attained.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group, the accounting processes and controls, and the industry in which the group operates. As described in the Strategic Report, specifically on pages 18-29, the group's main trading activities are grocery retailing and the development and monetisation of intellectual property and technology for the online retailing, logistics and distribution of grocery and consumer goods, which is all undertaken in the UK.

Following a re-organisation during the period, the group's retailing, logistics and technology development operations were transferred into separate legal entities. The scope of our audit includes all active trading companies located in the UK, whose results taken together account for all material balances and line items within the consolidated financial statements. All entities are managed from one central location in the UK and all audit work is undertaken by the UK engagement team.

The group structure also includes a Joint Venture arrangement with Morrisons related to the provision of warehouse equipment in CFC2. The results of this entity are also audited by the UK engagement team. No audit work was deemed necessary in relation to the group's captive insurer in Malta or development operation in Poland as the results of these entities are immaterial to the overall consolidated financial statements.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall group materiality	£4 million (2013: £3.85 million).
How we determined it	0.4% of revenue.
Rationale for benchmark applied	We have applied revenue as a benchmark for determining materiality as we considered that this provides us with a consistent year-on-year basis for determining materiality, reflecting the group's growth and investment plans and levels of profitability, and which we believe is also a key measure used by the shareholders as a body in assessing the group's performance.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £200,000 (2013: £190,000) as well as any misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the directors' statement, set out on page 87, in relation to going concern. We have nothing to report having performed our review.

As noted in the directors' statement, the directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes that the group has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the group's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Act 2006 opinion

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.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion: • information in the Annual Report and Accounts is: — materially inconsistent with the information in the audited financial statements; or — apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or — otherwise misleading.	We have no exceptions to report arising from this responsibility.
• the statement given by the directors on page 88, in accordance with provision C.1.1 of the UK Corporate Governance Code ("the Code"), that they consider the Annual Report and Accounts taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the group's performance, business model and strategy is materially inconsistent with our knowledge of the group acquired in the course of performing our audit.	We have no exceptions to report arising from this responsibility.
• the section of the Annual Report and Accounts on page 78, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report arising from this responsibility.

Adequacy of 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. We have no exceptions to report arising from this responsibility.

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 these responsibilities.

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the company's compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 88, 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.

What an audit of financial statements involves

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 group'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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report and Accounts 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

Other matter

We have reported separately on the company financial statements of Ocado Group plc for the 52 week period ended 30 November 2014 and on the information in the Directors' Remuneration Report that is described as having been audited.

Andrew Latham (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
St Albans
3 February 2015

CONSOLIDATED INCOME STATEMENT

for the 52 weeks ended 30 November 2014

	Notes	**52 weeks ended 30 November 2014 £m**	52 weeks ended 1 December 2013 £m
Revenue	2.3	**948.9**	792.1
Cost of sales		**(636.0)**	(544.6)
Gross profit		**312.9**	247.5
Other income	2.4	**39.4**	23.1
Distribution costs		**(253.1)**	(200.0)
Administrative expenses		**(85.0)**	(69.6)
Operating profit before result from joint venture and exceptional items		**14.2**	1.0
Share of result from joint venture	3.4	**2.4**	0.9
Exceptional items	2.7	**(0.3)**	(4.6)
Operating profit/(loss)		**16.3**	(2.7)
Finance income	4.5	**0.4**	0.4
Finance costs	4.5	**(9.5)**	(7.4)
Exceptional finance costs	2.7	**—**	(2.8)
Profit/(loss) before tax		**7.2**	(12.5)
Taxation	2.8	**0.1**	—
Profit/(loss) for the period		**7.3**	(12.5)
		pence	pence
Profit/(loss) per share			
Basic profit/(loss) per share	2.9	**1.24**	(2.16)
Diluted profit/(loss) per share	2.9	**1.18**	(2.16)

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

	Notes	**52 weeks ended 30 November 2014 £m**	52 weeks ended 1 December 2013 £m
Operating profit/(loss)		**16.3**	(2.7)
Adjustments for:			
Depreciation of property, plant and equipment	3.2	**40.0**	33.1
Amortisation expense	3.1	**12.4**	9.5
Impairment of property, plant and equipment	3.2	**1.1**	0.5
Impairment of intangible assets	3.1	**1.5**	0.8
Exceptional items†	2.7	**0.3**	4.6
EBITDA		**71.6**	45.8

† Included within exceptional items in the 52 weeks ended 1 December 2013 is a £0.2 million impairment reversal (see Note 2.7).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the 52 weeks ended 30 November 2014

	52 weeks ended 30 November 2014 £m	52 weeks ended 1 December 2013 £m
Profit/(loss) for the period	**7.3**	(12.5)
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Cash flow hedges		
— Gains arising on interest rate swaps	**—**	0.4
	—	0.4
Items that may be subsequently reclassified to profit or loss		
Cash flow hedges		
— (Losses)/gains arising on forward foreign exchange contracts	**(0.4)**	0.5
— Losses/(gains) transferred to property, plant and equipment	**0.3**	(0.3)
Translation of foreign subsidiary	**(0.1)**	—
	(0.2)	0.2
Other comprehensive (expense)/income for the period, net of tax	**(0.2)**	0.6
Total comprehensive income/(expense) for the period	**7.1**	(11.9)

CONSOLIDATED BALANCE SHEET

as at 30 November 2014

	Notes	30 November 2014 £m	1 December 2013 £m
Non-current assets			
Intangible assets	3.1	**38.4**	27.0
Property, plant and equipment	3.2	**275.2**	224.3
Deferred tax asset	2.8	**9.4**	7.9
Available-for-sale financial asset	3.3	**0.4**	0.4
Investment in joint ventures	3.4	**67.8**	58.9
		391.2	318.5
Current assets			
Inventories	3.7	**27.6**	23.9
Trade and other receivables	3.8	**43.1**	45.2
Cash and cash equivalents	3.9	**76.3**	110.5
		147.0	179.6
Total assets		**538.2**	498.1
Current liabilities			
Trade and other payables	3.10	**(136.5)**	(130.0)
Borrowings	4.2	**(4.4)**	(3.3)
Obligations under finance leases	4.3	**(26.5)**	(25.0)
Derivative financial instruments	4.6	**(0.2)**	(0.2)
Provisions	3.11	**(0.4)**	(0.5)
		(168.0)	(159.0)
Net current (liabilities)/assets		**(21.0)**	20.6
Non-current liabilities			
Borrowings	4.2	**(2.3)**	(6.2)
Obligations under finance leases	4.3	**(142.5)**	(126.9)
Provisions	3.11	**(5.2)**	(3.2)
Deferred tax liability	2.8	**(2.0)**	(0.4)
		(152.0)	(136.7)
Net assets		**218.2**	202.4
Equity			
Share capital	4.11	**12.5**	12.4
Share premium	4.11	**255.1**	251.5
Treasury shares reserve	4.11	**(51.8)**	(52.4)
Reverse acquisition reserve	4.11	**(116.2)**	(116.2)
Other reserves	4.11	**(0.3)**	(0.1)
Retained earnings		**118.9**	107.2
Total equity		**218.2**	202.4

The notes on pages 144 to 187 form part of these financial statements. The consolidated financial statements on pages 139 to 143 were authorised for issue by the Board of Directors and signed on its behalf by:

Tim Steiner
Chief Executive Officer

Duncan Tatton-Brown
Chief Financial Officer

3 February 2015
Ocado Group plc
Company Registration Number 07098616 (England and Wales)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the 52 weeks ended 30 November 2014

	Notes	Share capital £m	Share premium £m	Treasury shares reserve £m	Reverse acquisition reserve £m	Other reserves £m	Retained earnings £m	Total equity £m
Balance at 2 December 2012		12.3	247.8	(53.9)	(116.2)	(0.7)	116.4	205.7
Loss for the period		—	—	—	—	—	(12.5)	(12.5)
Other comprehensive income:								
Cash flow hedges								
— Gains arising on forward foreign exchange contracts		—	—	—	—	0.5	—	0.5
— Gains arising on interest rate swaps		—	—	—	—	0.4	—	0.4
— Gains transferred to property, plant and equipment		—	—	—	—	(0.3)	—	(0.3)
Total comprehensive income/ (expense) for the period ended 1 December 2013		—	—	—	—	0.6	(12.5)	(11.9)
Transactions with owners:								
Issues of ordinary shares		0.1	3.7	—	—	—	—	3.8
Share-based payments charge		—	—	—	—	—	3.3	3.3
Disposal of treasury shares		—	—	1.5	—	—	—	1.5
Total transactions with owners		0.1	3.7	1.5	—	—	3.3	8.6
Balance at 1 December 2013		12.4	251.5	(52.4)	(116.2)	(0.1)	107.2	202.4
Profit for the period		—	—	—	—	—	7.3	7.3
Other comprehensive income:								
Cash flow hedges								
— Losses arising on forward foreign exchange contracts	4.11	—	—	—	—	(0.4)	—	(0.4)
— Gains arising on interest rate swaps	4.11	—	—	—	—	0.3	—	0.3
Translation of foreign subsidiary	4.11	—	—	—	—	(0.1)	—	(0.1)
Total comprehensive income/ (expense) for the period ended 30 November 2014		—	—	—	—	(0.2)	7.3	7.1
Transactions with owners:								
Issues of ordinary shares	4.11	0.1	3.6	—	—	—	—	3.7
Share-based payments charge		—	—	—	—	—	4.4	4.4
Disposal of treasury shares		—	—	0.6	—	—	—	0.6
Total transactions with owners		0.1	3.6	0.6	—	—	4.4	8.7
Balance at 30 November 2014		**12.5**	**255.1**	**(51.8)**	**(116.2)**	**(0.3)**	**118.9**	**218.2**

CONSOLIDATED STATEMENT OF CASH FLOWS

for the 52 weeks ended 30 November 2014

	Notes	**52 weeks ended 30 November 2014 £m**	52 weeks ended 1 December 2013 £m
Cash flows from operating activities			
Profit/(loss) before tax		**7.2**	(12.5)
Adjustments for:			
— Depreciation, amortisation and impairment losses	3.1, 3.2	**55.0**	43.7
— Movement in provisions	3.11	**1.9**	0.6
— Share of profit in joint venture	3.4	**(2.4)**	(0.9)
— Share-based payments charge	2.6	**4.4**	3.3
— Foreign exchange movements		**0.1**	—
— Net finance costs	2.7, 4.5	**9.1**	9.8
Changes in working capital:			
— Movement in inventories		**(3.6)**	(6.4)
— Movement in trade and other receivables		**(1.5)**	(13.7)
— Movement in trade and other payables		**13.8**	43.6
Cash generated from operations		**84.0**	67.5
Interest paid		**(9.7)**	(7.1)
Net cash flows from operating activities		**74.3**	60.4
Cash flows from investing activities			
Purchase of property, plant and equipment		**(53.0)**	(60.7)
Borrowing costs capitalised in property, plant and equipment		**—**	(1.1)
Purchase of intangible assets		**(25.8)**	(15.7)
Interest received		**0.5**	0.3
Net cash flows from investing activities		**(78.3)**	(77.2)
Cash flows from financing activities			
Proceeds from the issue of ordinary share capital net of transaction costs	4.11	**3.7**	3.8
Proceeds from the sale and leaseback of property, plant and equipment		**—**	53.5
Proceeds from the sale and leaseback of intangible assets		**—**	4.4
Repayment of borrowings		**(2.9)**	(2.5)
Repayments of obligations under finance leases		**(30.5)**	(21.6)
Settlement of forward foreign exchange contracts		**(0.5)**	0.1
Net cash flows from financing activities		**(30.2)**	37.7
Net (decrease)/increase in cash and cash equivalents		**(34.2)**	20.9
Cash and cash equivalents at the beginning of the period		**110.5**	89.6
Exchange adjustments		**—**	—
Cash and cash equivalents at the end of the period	3.9	**76.3**	110.5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Section 1 — Basis of preparation

General information

Ocado Group plc (hereafter "the Company") is a public limited company incorporated in England and Wales under the Companies Act 2006 (Registration number 07098618) and domiciled in the United Kingdom. The address of its registered office is Titan Court, 3 Bishops Square, Hatfield Business Park, Hatfield, Hertfordshire, AL10 9NE. The financial statements comprise the results of the Company and its subsidiaries (hereafter "the Group"), see Note 5.1. The financial period represents the 52 weeks ended 30 November 2014. The prior financial period represents the 52 weeks ended 1 December 2013.

The principal activities of the Group are described in the Strategic Report on pages 2 to 59.

Basis of preparation

The financial statements have been prepared in accordance with the Listing Rules and the Disclosure and Transparency Rules of the UK Financial Conduct Authority (where applicable), International Financial Reporting Standards (IFRS) and International Financial Reporting Standards Interpretation Committee (IFRIC) 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 accounting policies applied are consistent with those described in the Annual Report and financial statements for the 52 weeks ended 1 December 2013 of Ocado Group plc.

The financial statements are presented in pounds sterling, rounded to the nearest hundred thousand unless otherwise stated. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial asset investments and certain financial assets and liabilities, which are held at fair value.

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 (see page146). Thus, they continue to adopt the going concern basis of accounting in preparing the financial information.

Standards, amendments and interpretations adopted by the Group in 2013/14 or issued that are effective, and are not material to the Group

The Group has considered the following new standards, interpretations and amendments to published standards that are effective for the Group during the financial year beginning 2 December 2013 and concluded that they are either not relevant to the Group or that they would not have a significant impact on the Group's financial statements:

		Effective Date
IFRS 10†	Consolidated Financial Statements	1 January 2013
IFRS 11†	Joint Arrangements	1 January 2013
IFRS 12†	Disclosures of Interests in Other Entities	1 January 2013
IAS 1 (amendments)	Presentation of financial statements	1 January 2013
IAS 27 (revised 2011)†	Separate financial statements	1 January 2013
IAS 28 (revised 2011)†	Investments in Associates and Joint Ventures	1 January 2013
Various	Amendments to various IFRSs and IASs including those arising from the IASB's annual improvements project.	Various

† These standards, amendments and interpretations were early adopted in the prior year. The Group concluded that they would not have a significant impact on the Group's financial statements.

The following further new standards, interpretations and amendments to published standards and interpretations which are relevant to the Group have been issued but are not effective for the financial year beginning 2 December 2013, are not material to the Group and have not been adopted early:

		Effective Date
IFRS 2 (amendment)	Share-Based Payments	1 July 2014
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2017
Various	Amendments to various IFRSs and IASs including those arising from the IASB's annual improvements project.	Various

Basis of consolidation

The consolidated Group financial statements consist of the financial statements of the Company, all entities controlled by the Company (its subsidiaries) and the Group's share of its interests in joint ventures.

Subsidiaries

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which power over the operating and financial decisions is obtained and cease to be consolidated from the date on which power is transferred out of the Group. Power is achieved when the Company has the ability and right, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain economic benefits from its activities. This is evident for all of the Group's subsidiaries per Note 5.1.

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

Joint ventures

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

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

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

Accounting policies

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

Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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.

Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

a. assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

b. income and expenses for each income statement are translated at average exchange rates (unless average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

c. all resulting exchange differences are recognised as a separate component of equity.

Significant accounting policies and critical estimates, judgements and assumptions

The preparation of the Group financial statements requires 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.

Changes in accounting estimates may be necessary if there are changes in the circumstances on which the estimate was based or as a result of new information or more experience.

Accounting policies that are significant due to the nature of business are set out below:

- Revenue recognition (Note 2.1);

The estimates, judgements 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:

- Cost of sales (Note 2.1);
- Segmental reporting (Note 2.2);
- Recognition of deferred tax assets (Note 2.8);
- Intangible assets (capitalisation of software costs) (Note 3.1);
- Exceptional items (Note 2.7);
- Share options and other equity instruments (Note 4.12); and
- Going concern basis including its effect on the impairment of assets (see below).

Going concern basis including its effect on the impairment of assets

The Group has significant cash reserves and maintains a mixture of short and medium-term debt and lease finance arrangements that are designed to ensure that it has sufficient available funds to finance its operations. The Board monitors rolling forecasts of the Group's liquidity requirements based on a range of precautionary scenarios to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. During the year the Group entered into a three-year £100 million revolving credit facility, which remains unutilised as at 30 November 2014.

After making appropriate enquiries and having considered the business activities and the Group's principal risks and uncertainties as set on pages 32 to 35, 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, notwithstanding the Group's net current liabilities. Accordingly, the financial statements have been prepared on a going concern basis.

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

The Group is required to undergo an assessment of the future viability of assets grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Given the Group's current operating structure, the lowest level at which cash flows can reasonably be assessed is for the Group as a whole. The 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 cash flow projections, including management's expectations of:

- Increase in revenue;
- Growth in EBITDA;
- Timing and quantum of future capital expenditure; and
- Estimation and cost of future funding.

Section 2 — Results for the year

2.1 Profit before tax

Accounting policies

Revenue

The Group follows the principles of IAS 18 "Revenue", in determining appropriate revenue recognition policies.

Revenue comprises the fair value of consideration received or receivable for the sale of goods and services. These 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 receipts are included in revenue.

Revenue from the sale of goods is always recognised when the significant risks and rewards of ownership of the goods have been transferred to the customer, which is upon delivery of the goods to the customer's home. 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.

Revenue from the rendering of services is recognised over the period in which services are rendered. Initial licence contract revenues are recognised over a term which is specific to individual customer contracts. For services, the term is the period over which services are rendered. For the licence of technology assets, the revenue is 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.

2.1 Profit before tax (continued)

Cost of sales

Cost of sales represents the cost of groceries and other products the Group sells, any associated licence fees which are driven by 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.

Cost of sales also includes monies received from suppliers in relation to the agreed funding of selected items that are sold by the Company on promotion and is recognised once the promotional activity has taken place in the period to which it relates on an accruals basis. The estimates required for this source of income are limited because the time periods of promotional activity are less than one month in most cases and the invoicing for the activity occurs on a regular basis shortly after the promotions have ended.

At the period end the Group is required to estimate supplier income due from annual agreements for volume rebates, which span across the year-end date. Estimates are required due to the fact that firm confirmation of some amounts due is often only received three to six months after the period end. Where estimates are required these are based on historical data for prior years and a review of significant supplier contracts. A material amount of this income is received from third parties via the Company's supply agreement with Waitrose. The estimates for this income are prepared following discussions with Waitrose throughout the year and regularly reviewed by senior management.

Other income

Other income comprises the fair value of consideration received or receivable for advertising services provided by Ocado to suppliers and other third parties on the Webshop, commission income, rental income, sublease payments receivable and amounts receivable not in the ordinary course of business. Income for advertising services is recognised over the particular time period for which the service is provided on an accruals basis. An adjustment is made at the period end to accrue the amount of income in relation to campaigns that may span the period end, however such adjustments are not typically material.

Employee benefits

The Group contributes to the personal pension plans of its staff through two pension plans: a defined contribution Group personal pension administered by Standard Life, and a defined contribution Money Purchase Scheme administered by People's Pensions. Employer contributions to the schemes 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. In most cases, this is the customer's home. This includes the payroll-related expenses for the picking, dispatch and delivery of products 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. This includes costs incurred on behalf of Morrisons which are subsequently recharged.

Administrative expenses

Administrative expenses consist of all IT costs, advertising and marketing expenditure (excluding vouchers), share-based payments costs, employment costs of all central functions, which include board, legal, finance, human resources, marketing and procurement, rent and other property-related costs for the head office, all fees for professional services and the depreciation, amortisation and impairment associated with IT equipment, software, fixtures and fittings. Additionally, this includes costs incurred on behalf of Morrisons which are subsequently recharged.

2.1 Profit before tax (continued)

Exceptional items

The Group has adopted an income statement format which seeks to highlight significant items within the Group results for the year. The Group believes this format is useful as it highlights one-off items, such as material set-up costs for new fulfilment warehouses, reorganisation and restructuring costs, profit or loss on disposal of operations, and impairment of assets. Exceptional items, as disclosed on the face of the income statement, are items that due to their material and/or non-recurring nature, as determined by management, have been classified separately in order to draw them to the attention of the reader of the financial statements and to avoid distortion of underlying performance. This facilitates comparison with prior periods to assess trends in financial performance more readily. It is determined by management that each of these items relates to events or circumstances that are non-recurring in nature.

The Group applies judgement in identifying the significant non-recurring items of income and expense that are recognised as exceptional to help provide an indication of the Group's underlying business performance. Examples of items that the Group considers as exceptional include, but are not limited to, material costs relating to the opening of a new warehouse, corporate reorganisations and any material costs, outside of the normal course of business as determined by management.

2.2 Segmental reporting

The Group's principal activities are grocery retailing and the development and monetisation of Intellectual Property ("IP") and technology used for the online retailing, logistics and distribution of grocery and consumer goods, currently derived solely from the UK. The Group is not reliant on any major customer for 10% or more of its revenue.

In accordance with IFRS 8 "Operating Segments", an operating segment is defined as a business activity whose operating results are reviewed by the chief operating decision-maker and for which discrete information is available. 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 Group are currently managed as one segment. Consequently, all activities relate to this 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.

2.3 Gross sales

A reconciliation of revenue to gross sales is as follows:

	52 weeks ended 30 November 2014 £m	52 weeks ended 1 December 2013 £m
Revenue	**948.9**	792.1
VAT	**66.3**	50.4
Marketing vouchers	**11.3**	9.9
Gross sales	**1,026.5**	852.4

2.4 Other income

A breakdown of other income is as follows:

	52 weeks ended 30 November 2014 £m	52 weeks ended 1 December 2013 £m
Media and other income	**28.0**	19.2
Rental income	**11.4**	3.9
	39.4	23.1

2.5 Operating profit

	Notes	**52 weeks ended 30 November 2014 £m**	52 weeks ended 1 December 2013 £m
Operating profit is stated after charging/(crediting) the following:			
Cost of inventories recognised as an expense		**621.1**	530.4
Employment costs		**168.9**	137.3
Amortisation expense	3.1	**12.4**	9.5
Depreciation of property, plant and equipment	3.2	**40.0**	33.1
Impairment of property, plant and equipment, included in:	3.2	**1.1**	0.3
— Distribution costs		**1.0**	0.3
— Administrative expenses		**0.1**	0.2
— Exceptional items		**—**	(0.2)
Impairment of intangible assets, included in:			
— Administrative expenses	3.1	**1.5**	0.8
Loss on disposal of property, plant and equipment	3.2	**—**	0.1
Impairment of receivables	3.8	**0.5**	—
Operating lease rentals			
— Land and buildings		**9.4**	5.2
— Other leases		**0.5**	0.4
Net foreign exchange movements		**(0.2)**	0.1

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

	52 weeks ended 30 November 2014 £'000	52 weeks ended 1 December 2013 £'000
Fees payable to the Company auditor for the audit of the Parent Company and consolidation		
— Statutory Group and Company audit	**60**	48
Fees payable to the Company auditor for other services		
— Statutory audit of subsidiaries	**184**	135
— Advisory support	**35**	40
— Audit-related services	**28**	27
	307	250

2.6 Employee information

Employment costs during the financial period were as follows:

	52 weeks ended 30 November 2014 £m	52 weeks ended 1 December 2013 £m
Staff costs during the period:		
Wages and salaries	**165.8**	138.4
Social security costs	**14.6**	12.1
Other pension costs	**4.1**	2.9
Share-based payment expense†	**6.0**	3.3
Total gross employment costs	**190.5**	156.7
Staff costs capitalised to intangible assets	**(17.3)**	(15.1)
Staff costs capitalised to property, plant and equipment	**(4.3)**	(4.3)
Total employment cost expense	**168.9**	137.3
Average monthly number of employees (including Executive Directors) by function		
Operational staff	**6,001**	4,967
Support staff	**1,004**	775
	7,005	5,742

† Included in the share-based payment expense is the IFRS 2 charge of £4.4 million and a £1.6 million provision for the payment of employer's NIC upon allotment of the share awards.

2.7 Exceptional items

	52 weeks ended 30 November 2014 £m	52 weeks ended 1 December 2013 £m
Corporate restructure	**0.3**	—
Set-up costs		
— CFC2	**—**	1.3
— Non-food	**—**	0.2
Impairment (reversal)	**—**	(0.2)
Strategic operating agreement		
— Legal and professional fees	**—**	3.3
— Exceptional finance costs	**—**	2.8
	0.3	7.4

Corporate restructuring

During the year, the Group undertook a corporate restructuring. The Group's business was split between a number of legal entities in order to reflect broadly the operational division of the business. To assist the restructuring the Group sought tax, accountancy and legal advice, for which a number of one-off costs were incurred.

Prior year

Set-up costs

During 2013, the Group 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 distribution centre of £0.2 million (2012: £0.3 million), which went live in January 2013.

2.7 Exceptional items (continued)

Impairment of assets

During 2013, an impairment reversal of £0.2 million was identified as part of the review of the land, building and plant and machinery related to a former spoke site at Coventry.

Strategic operating agreement

In 2013, the Group announced its first strategic client for its 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 Group which reflect services from professional advisers. The agreement also allowed the Group to repay its £100 million loan facility which resulted in the full amortisation of the prepaid arrangement fees from 2012. These one-off costs incurred amounted to £6.1 million.

2.8 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, calculated 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 income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of reversal of the temporary differences is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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 Group 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.

2.8 Taxation (continued)

Taxation — Income statement

	52 weeks ended 30 November 2014 £m	52 weeks ended 1 December 2013 £m
Recognised in the Income statement		
Current tax:		
UK corporation tax on profits of the period	**—**	—
Overseas corporation tax on profits of the period	**0.1**	—
Adjustments in respect of prior periods	**(0.3)**	—
Total current tax	**(0.2)**	—
Deferred tax:		
Adjustment in respect of prior periods	**0.3**	—
Origination and reversal of temporary differences	**(0.2)**	—
Total deferred tax	**0.1**	—
Income tax expense/(credit)	**(0.1)**	—

The tax on the Group's profit/(loss) before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to losses of the Group as follows:

	52 weeks ended 30 November 2014 £m	52 weeks ended 1 December 2013 £m
Profit/(loss) before tax	**7.2**	(12.5)
Effective tax charge/(credit) at the UK tax rate of 21.7% (2013: 23.3%)	**1.5**	(2.9)
Effect of:		
Change in UK corporation tax rate	**—**	1.3
Utilisation of brought forward losses	**(0.2)**	—
Permanent differences	**1.8**	1.2
Difference in overseas tax rates	**—**	0.6
Release of deferred tax on capitalised R&D	**(0.4)**	—
Tax losses for which no deferred tax asset recognised	**0.3**	—
Temporary differences on which no deferred tax recognised	**(3.1)**	(0.2)
Income tax charge/(credit) for the period	**(0.1)**	—

As enacted in Finance Act 2013, the standard rate of corporation tax in the UK changed from 23% to 21% with effect from 1 April 2014. Accordingly, the effective rate for the period is 21.7%.

Taxation — Balance sheet

Movement in the deferred tax asset is as follows:

	Tax losses carry-forwards £m
As at 2 December 2012	7.9
Effect of change in UK corporation tax rate	(1.1)
Tax losses recognised through the Income statement	1.1
As at 1 December 2013	7.9
Effect of change in UK corporation tax rate	**—**
Tax losses recognised through the Income statement	**1.5**
As at 30 November 2014	**9.4**

2.8 Taxation (continued)

As enacted in Finance Act 2013, the standard rate of corporation tax in the UK changed to 21% from 1 April 2014 and will change to 20% from 1 April 2015. Deferred tax has been provided at the rates enacted at the balance sheet date.

Movement in the unrecognised deferred tax asset is analysed below:

	Tax losses carry-forwards £m	Accelerated capital allowances £m	Derivative financial instruments £m	Other short-term timing differences £m	Total £m
As at 2 December 2012	56.7	17.1	0.1	0.1	74.0
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	—	—	(0.1)	—	(0.1)
As at 1 December 2013	48.3	17.0	—	—	65.3
Adjustment in respect of prior periods	—	—	—	—	—
Effect of change in UK corporation tax rate	—	—	—	—	—
Potential movement in the period unrecognised through:					
— Income statement	**(0.7)**	**(2.0)**	**—**	**0.5**	**(2.2)**
— Equity	**—**	**—**	**—**	**—**	**—**
As at 30 November 2014	**47.6**	**15.0**	**—**	**0.5**	**63.1**

As at 30 November 2014 the Group had approximately £285.3 million of unutilised tax losses (2013: approximately £279.5 million) available for offset against future profits. A deferred tax asset of £9.4 million (2013: £7.9 million) has been recognised in respect of £47.0 million (2013: £39.6 million) of such losses, the recovery of which is supported by the expected level of future profits of the Group. The recognition of the deferred tax asset is based on forecasted operating results calculated in approved business plans and a review of tax planning opportunities. Management have concluded that there is sufficient evidence for the recognition of the deferred tax asset of £9.4 million.

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:

	£m
As at 2 December 2012	(0.4)
Recognised through the Income statement	—
As at 1 December 2013	(0.4)
Recognised through the Income statement	**(1.6)**
As at 30 November 2014	**(2.0)**

For the year ended 30 November 2014 the Group has recognised a deferred tax liability of £2.0 million. Of this amount, £1.7 million is in respect of intangible assets that management assessed as qualifying for research and development corporation tax relief. The timing of the 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.

In a prior period, the Group recognised a deferred tax liability of £0.4 million in respect of intangible assets that management assessed as qualifying 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.

2.9 Profit/(loss) per share

Basic profit/(loss) per share is calculated by dividing the profit/(loss) attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares held pursuant to the Group's JSOS which are accounted for as treasury shares.

Diluted profit/(loss) per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion or vesting of all dilutive potential shares. The Company has two categories of potentially dilutive shares, namely share options and shares held pursuant to the JSOS.

For the year ended 1 December 2013 there was no difference in the weighted average number of shares used for the calculation of basic and diluted profit/(loss) per share as the effect of all potentially dilutive shares outstanding was anti-dilutive.

Basic and diluted profit/(loss) per share has been calculated as follows:

	52 weeks ended 30 November 2014 Number of shares (m)	52 weeks ended 1 December 2013 Number of shares (m)
Issued shares at the beginning of the period, excluding treasury shares	**582.5**	578.3
Effect of share options exercised in the period	**2.1**	1.4
Effect of treasury shares disposed of in the period	**0.3**	0.3
Effect of shares issued in the period	**—**	—
Weighted average number of shares at the end of the period for basic earnings per share	**584.9**	580.0
Potentially dilutive share options and shares	**29.4**	—
Weighted average number of diluted ordinary shares	**614.3**	580.0
	£m	£m
Profit/(loss) attributable to the owners of the Company	**7.3**	(12.5)
	pence	pence
Basic profit/(loss) per share	**1.24**	(2.16)
Diluted profit/(loss) per share	**1.18**	(2.16)

The only transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of these financial statements were the exercise of 80,441 share options under the company ESOS scheme, 10,163 share options under the SAYE2 scheme, 46 under the SAYE3 scheme and the issue of 22,443 Partnership Shares under the SIP.

Section 3 — Assets and liabilities

3.1 Intangible assets

Accounting policies

Intangible assets

Intangible assets comprise internally generated assets relating mainly to computer software and other intangible assets relating mainly to externally acquired computer software and assets, and the right to

3.1 Intangible assets (continued)

use land. These are carried at cost less accumulated amortisation and any recognised impairment loss. Other intangible assets such as 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. For the Group’s impairment policy on non-financial assets see Note 3.2.

Amortisation on other intangible 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
Right to use land	The estimated useful economic life, or the lease term if shorter

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

Cost capitalisation

The cost of internally generated assets are capitalised as an intangible asset where it is determined by management’s judgement that the ability to develop the assets is technically feasible, will be completed, and that the asset will generate economic benefit that outweighs its cost. This is in line with the recognition criteria as outlined in IAS 38 “Intangible Assets”. Management determine whether the nature of the projects meet the recognition criteria to allow for the capitalisation of internal costs, which include the total cost of any external products or services and labour costs directly attributable to development. During the year management have considered whether costs in relation to the time spent on specific software projects can be capitalised. Time spent that was eligible for capitalisation included time which was intrinsic to the development of new assets to be used or monetised by the Group, the enhancement of existing warehouse and routing systems capabilities, or improvements to applications used by the Group’s customers.

Other development costs that do not meet the above criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Research expenditure is recognised as an expense as incurred. These are costs that form part of the intent of gaining new knowledge, which management assess as not satisfying the capitalisation criteria per IAS 38 “Intangible Assets” as outlined above. Examples of research costs include, but are not limited to, the following: salaries and benefits of employees assessing and analysing future technologies and their likely viability, and professional fees such as marketing costs and the cost of third party consultancy.

In certain circumstances, some assets are ready for use, but are not performing as intended by management. Development costs that relate to the enhancement or modifications of existing assets are capitalised until the asset is performing as intended by management. Management assess the capitalisation of these costs by consulting the guidance outlined in IAS 38 “Intangible Assets” and exercise judgement in determining the qualifying costs. When unsure if the enhancement or modification costs relate to the development of the asset or are maintenance expenditure in nature, management treat the expenditure as if it were incurred in the research phase only in line with IAS 38 guidance.

Internally generated assets consist primarily of costs relating to intangible assets which provide economic benefit independent of other assets, and intangible assets that are utilised in the operation of property, plant and equipment. These intangible assets are required for certain tangible assets to

3.1 Intangible assets (continued)

operate as intended by management. Management assess each material internally generated asset addition and consider whether it is integral to the successful operation of a related item of hardware, can be used across a number of applications and therefore whether the asset should be recognised as property, plant and equipment. If the asset could be used on other existing or future projects it will be recognised as an intangible asset. For example, should an internally generated asset, such as the software code to enhance the operation of existing CFC equipment, be expected to form the foundation or a substantial element of future software development, it has been recognised as an intangible asset.

Of the internally generated assets capitalised, 20% relates to asset additions within property, plant and equipment.

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.

	Internally generated assets £m	Other intangible assets £m	Total intangible assets £m
Cost			
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)
At 1 December 2013	58.0	13.4	71.4
Additions†	**—**	**8.0**	**8.0**
Internal development costs capitalised	**17.3**	**—**	**17.3**
Disposals	**(9.7)**	**(8.2)**	**(17.9)**
At 30 November 2014	**65.6**	**13.2**	**78.8**
Accumulated amortisation			
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
At 1 December 2013	(33.3)	(11.1)	(44.4)
Charge for the period	**(11.5)**	**(0.9)**	**(12.4)**
Impairment	**(1.5)**	**—**	**(1.5)**
Disposals	**9.7**	**8.2**	**17.9**
At 30 November 2014	**(36.6)**	**(3.8)**	**(40.4)**
Net book value			
At 1 December 2013	24.7	2.3	27.0
At 30 November 2014	**29.0**	**9.4**	**38.4**

† Included within other intangible assets additions is £4.2 million for the right to use land.

3.1 Intangible assets (continued)

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

	30 November 2014 £m	1 December 2013 £m
Cost	**13.2**	12.8
Accumulated amortisation	**(7.2)**	(4.8)
Net book value	**6.0**	8.0

For the 52 weeks ended 30 November 2014, internal development costs capitalised represented approximately 68% (2013: 94%) of expenditure on intangible assets and 15% (2013: 8%) 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, any costs attributable to bringing the asset to its working condition for its intended use and major spares. An item of property, plant and equipment is recognised as an asset if it is probable that future economic benefits associated with the asset will flow to the entity, and the cost of the asset can be measured reliably.

Property, plant and equipment represents 51% of the total asset base of the Group in 2014 (2013: 45%). The estimates and assumptions made to determine the carrying value of property, plant and equipment and related depreciation are important to the Group's financial position and performance. Management assess the estimates and assumptions based on available external information and historical experience.

In determining the cost of property, plant and equipment, certain costs that relate to the intangible element of an asset are separately disclosed within Intangible assets, Note 3.1. Management exercise judgement to review each material asset addition and consider whether the intangible asset element can be used for other property, plant and equipment additions in the current or future years. Software written for the Group's first CFC in Hatfield is identified as a standalone intangible asset, and has provided the foundation for software used in some areas of CFC2, and is expected to provide part of the foundation of software used in future centres.

For more information on the Group's policy on capitalisation of borrowings costs, see Note 4.1.

Depreciation on other property, plant and equipment is charged to 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

Land is held at cost and not depreciated.

Assets in the course of construction are carried at cost less any recognised impairment loss. Cost includes professional fees and other directly attributable costs. Depreciation of these assets commences when the assets are ready for their intended use, on the same basis as other property assets.

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

3.2 Property, plant and equipment (continued)

Estimation of useful life

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.

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 Group's assets are determined by management at the time the asset is acquired and reviewed at least annually for appropriateness.

Management also assess the useful lives 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. Historically, changes in useful lives have not resulted in material changes to the Group's depreciation charge.

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 costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. 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. When an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

3.2 Property, plant and equipment (continued)

Given the Group's current operating structure the lowest level at which cash flows can reasonably be assessed is the Group as a whole. The Group 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.

	Land and buildings £m	Fixtures, fittings, plant and machinery £m	Motor vehicles £m	Total £m
Cost				
At 2 December 2012†	117.8	257.4	34.1	409.3
Additions	5.1	149.8	9.1	164.0
Disposals[1]	(80.6)	(110.4)	(4.3)	(195.3)
At 1 December 2013†	42.3	296.8	38.9	378.0
Additions	**13.2**	**67.2**	**12.6**	**93.0**
Disposals[1]	**(0.3)**	**(11.9)**	**(4.1)**	**(16.3)**
At 30 November 2014†	**55.2**	**352.1**	**47.4**	**454.7**
Accumulated depreciation and impairment				
At 2 December 2012	(15.2)	(98.4)	(15.4)	(129.0)
Charge for the period	(2.0)	(24.2)	(6.9)	(33.1)
Impairment	0.2	(0.5)	—	(0.3)
Disposals	0.3	4.1	4.3	8.7
At 1 December 2013	(16.7)	(119.0)	(18.0)	(153.7)
Charge for the period	**(1.8)**	**(30.0)**	**(8.2)**	**(40.0)**
Impairment	**(0.3)**	**(0.8)**	**—**	**(1.1)**
Disposals	**0.3**	**11.0**	**4.0**	**15.3**
At 30 November 2014	**(18.5)**	**(138.8)**	**(22.2)**	**(179.5)**
Net book value				
At 1 December 2013	25.6	177.8	20.9	224.3
At 30 November 2014	**36.7**	**213.3**	**25.2**	**275.2**

† There were no capitalised borrowing costs in 2014 (2013: £1.9 million). The capitalisation rate for the prior period was the same as that incurred on the underlying borrowings, being LIBOR plus 3%. Borrowing costs were capitalised on specific borrowings which were wholly attributable to qualifying assets.

1. During 2013, the Group entered into a sale and 25-year leaseback transaction of its MHE relating to CFC2 to MHE JV Co. Of the £16.3 million disposals, £0.9 million relates to the sale of assets to MHE JVCo, all of which were leased back and are included in total additions of £93.0 million. Of the prior period disposals of £195.3 million, £115.2 million relates to the sale of assets to MHE JV Co, £112.1 million of which were leased back and are included in total additions of £164.0 million.

Included within property, plant and equipment is capital work-in-progress for land and buildings of £15.4 million (2013: £0.1 million) and capital work-in-progress for fixtures, fittings, plant and machinery of £20.1 million (2013: £5.2 million).

Of the prior period impairment charge, a reversal of £0.2 million has been included within exceptional costs (see Note 2.7).

3.2 Property, plant and equipment (continued)

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

	Land and buildings £m	Fixtures, fittings, plant and machinery £m	Motor vehicles £m	Total £m
At 1 December 2013				
Cost	29.3	171.9	38.1	239.3
Accumulated depreciation and impairment	(14.8)	(56.6)	(17.5)	(88.9)
Net book value	14.5	115.3	20.6	150.4
At 30 November 2014				
Cost	**30.3**	**203.7**	**46.5**	**280.5**
Accumulated depreciation and impairment	**(16.3)**	**(73.9)**	**(21.6)**	**(111.8)**
Net book value	**14.0**	**129.8**	**24.9**	**168.7**

There were no assets reclassified from owned assets to assets held under finance leases following asset-based financing arrangements (2013: £1.7 million).

Property, plant and equipment with a net book value of £13.3 million (2013: £14.0 million) has been pledged as security for the secured loans (Note 4.1).

3.3 Available-for-sale financial assets

Accounting policies

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivatives that are not designated as held for trading or that are not designated as "at fair value through profit and loss". 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 Group's investments fall within this category as explained below.

Investments

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.

	30 November 2014 £m	1 December 2013 £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 Group 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 Group and the company is at arm's length.

3.3 Available-for-sale financial assets (continued)

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 Group does not intend to dispose of this investment in the foreseeable future.

3.4 Investment in joint ventures

Accounting policies

The Group'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 as provided under IFRS 11 "Joint Arrangements". Investments in joint ventures are carried in the Consolidated balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the entity, less any impairment in value. On transfer of land and/or work-in-progress to joint ventures, the Group recognises only its share of any profits or losses, namely that proportion sold outside the Group.

If the Group's share of losses in a joint venture or associate equals or exceeds its investment in the joint venture or associate, the Group 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 Group's interest in the entity.

Investment in joint ventures

The Group has a 50% equity interest valued at £67.8 million (2013: £58.9 million) in MHE JV Co, a joint venture company in which Morrisons and the Company are the sole investors. During the year the Group injected a £6.5 million capital contribution into MHE JV Co to finance the acquisition of CFC2 fixed assets.

The Group's share of profit after tax in MHE JVCo for the year is detailed as follows:

	52 weeks ended 30 November 2014 £m	52 weeks ended 1 December 2013 £m
Group share of revenue	**2.7**	1.0
Group share of expenses, inclusive of tax	**(0.3)**	(0.1)
Group share of profit after tax	**2.4**	0.9

At the period end, the Group's share of the net assets of MHE JVCo were valued at £67.8 million reflecting the £2.4 million Group share of profit after tax.

For the 52 weeks ended 30 November 2014 the entity, MHE JVCo Limited, has recognised net interest income of £5.4 million. Material amounts held on its balance sheet as at 30 November 2014 include £130.8 million of finance lease receivables, £4.8 million of property, plant and equipment, £2.7 million of cash and cash equivalents, and £3.5 million of trade and other payables, contributing towards net assets of £135.6 million. Other than as a finance lessor to the Group, MHE JVCo has no other significant operations.

3.5 Business combinations

Accounting policies

Business combinations

The acquisition method of accounting is used for the acquisition of subsidiaries. The cost of the acquisition is measured at the aggregate fair value of the consideration given. The acquiree's

3.5 Business combinations (continued)

identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business Combinations" are recognised at their fair value at the date the Group assumes control of the acquiree.

Acquisition related costs are recognised in the Consolidated income statement as incurred. If the business combination is achieved in stages, the acquisition date fair value of the Group's previously held investment in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Certain assets and liabilities are not recognised at their fair value at the date control was achieved as they are accounted for using other applicable IFRSs. These include deferred tax assets/liabilities (IAS 12 "Income Taxes"), any assets related to employee benefit arrangements (IAS 19 "Employee Benefits" and IFRS 2 "Share-Based Payment") and non-current assets held for sale or discontinued operations (IFRS 5 "Non-Current Assets Held for Sale").

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the valuation of the fair value of assets and liabilities acquired is still in progress. Those provisional amounts are adjusted during the measurement period of one year from the date control is achieved when additional information is obtained about facts and circumstances which would have affected the amounts recognised as of that date.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement measured at fair value at the date control is achieved. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs.

Investments in subsidiaries

Investments in subsidiaries held by the Company are carried at cost less accumulated impairment losses.

Goodwill represents the difference between the fair value of the assets given in consideration and the fair value of identifiable assets, liabilities and contingent liabilities of the acquiree.

On 3 November 2014 Speciality Stores Limited, a Group subsidiary, acquired 100% of the issued share capital of Paws & Purrs Ltd, obtaining control of the entity. The principal activity of Paws & Purrs Ltd is the sale of pet products. It was acquired to further develop the non-food operations of the Group. Total consideration transferred was £15,000, acquiring £20,000 of gross assets and £5,000 of net assets resulting in a net cash outflow of £7,000. Goodwill of £10,000 has been recognised, being the consideration paid in excess of the value of acquired net assets.

3.6 Working capital accounting policies

Inventories

Inventories comprise goods held for resale, fuel and other consumable goods. Inventories are valued at the lower of cost and net realisable value as provided in IAS 2 "Inventories". Goods held for resale and consumables are valued using the weighted average cost basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. It also takes into account slow-moving, obsolete and defective inventory. 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. There has been no security granted over inventory unless stated otherwise.

The Group have a mix of grocery and non-food items within inventory which have different characteristics. For example, grocery lines have high inventory turnover, while non-food lines are typically held within inventory for a longer period of time and so run a higher risk of obsolesence. As

3.6 Working capital accounting policies (continued)

inventories are carried at the lower of cost and net realisable value, this requires the estimation of the eventual sales price of goods to customers in the future. Judgement is applied when estimating the impact on the carrying value of inventories such as slow-moving, obsolete and defective inventory, which includes reviewing the quantity, age and condition of inventories throughout the year.

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 Group's loans and receivables comprise "Trade and other Receivables" 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.

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.

Provision for impairment of trade receivables

A provision for impairment of trade receivables is established when there is objective evidence that the Group 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 considered 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. The outcome depends on future events which are by their nature uncertain. In assessing the likely outcome, management bases its assessment on historical experience and other factors that are believed to be reasonable in the circumstances.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and short-term deposits with a maturity of three months or less at the date of acquisition. Cash at bank and in hand and short-term deposits are shown under current assets on the Consolidated balance sheet. The carrying amount of these assets approximates to their fair value. 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 Group 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.

3.7 Inventories

	30 November 2014 £m	1 December 2013 £m
Goods for resale	**27.1**	23.5
Consumables	**0.5**	0.4
	27.6	23.9

Write-downs of inventories recognised as an expense amounted to £0.2 million (2013: £0.5 million) in the Consolidated income statement.

3.8 Trade and other receivables

	30 November 2014 £m	1 December 2013 £m
Trade receivables	**12.6**	23.6
Less: provision for impairment of trade receivables	**(3.0)**	(0.5)
Net trade receivables	**9.6**	23.1
Other receivables	**21.7**	15.6
Prepayments	**6.6**	5.1
Accrued income	**5.2**	1.4
	43.1	45.2

Included within trade receivables is a balance of £0.8 million (2013: £12.3 million) owed by MHE JV Co.

Included in other receivables is £8.9 million (2013: £7.1 million) due from suppliers in relation to supplier-funded promotional activity and £5.5 million (2013: £6.2 million) due from suppliers in relation to volume-based rebate amounts.

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

	30 November 2014		1 December 2013	
	Gross £m	Impairment £m	Gross £m	Impairment £m
Not past due	**30.9**	**(2.0)**	34.7	—
Past due 0–3 months	**6.7**	**(0.3)**	5.7	(0.3)
Past due 3–6 months	**1.3**	**(0.2)**	0.1	(0.1)
Past due over 6 months	**0.6**	**(0.5)**	0.2	(0.1)
	39.5	**(3.0)**	40.7	(0.5)

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

3.8 Trade and other receivables (continued)

Trade receivables that are past due but not impaired amount to £7.6 million (2013: £5.4 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:

	30 November 2014 £m	1 December 2013 £m
Past due 0–3 months	**6.4**	5.4
Past due 3–6 months	**1.1**	—
Past due over 6 months	**0.1**	—
	7.6	5.4

3.9 Cash and cash equivalents

	30 November 2014 £m	1 December 2013 £m
Cash at bank and in hand	**76.3**	110.5

£2.3 million (2013: £1.7 million) of the Group's cash and cash equivalents are held by the Group's captive insurance company to maintain its solvency requirements. Therefore, these funds are restricted and are not available to circulate within the Group on demand.

3.10 Trade and other payables

	30 November 2014 £m	1 December 2013 £m
Trade payables	**61.3**	53.0
Taxation and social security	**4.8**	4.1
Accruals	**46.6**	42.0
Deferred income	**23.8**	30.9
	136.5	130.0

Deferred income represents the value of delivery income received under the Ocado Smart 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.

3.11 Provisions

Accounting policies

Provisions can be distinguished from other types of liability by considering the events that give rise to the obligation and the degree of uncertainty as to the amount or timing of the liability. These are recognised in the Consolidated balance sheet when the Group 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.

The amounts recognised as a provision are management's best estimates of the expenditure to settle present obligations as at balance sheet date. The outcome depends on future events, which are by their nature uncertain. In assessing the likely outcome, management base their assessment on historical experience and other factors that are believed to be reasonable in the circumstances.

Insurance claims

Provisions for insurance claims relate to potential motor insurance claims and potential public liability claims where accidents have occurred but a claim has yet to be made. The provision is made based on estimates provided to Ocado by the third party manager of the Ocado Cell in Atlas Insurance PCC Limited (the "Ocado Cell").

3.11 Provisions (continued)

Dilapidations

Provisions for dilapidations are made in respect of vehicles and properties where there are obligations to return the vehicles and properties to the condition and state they were in when the Group obtained the right to use them. These are recognised on a property-by-property basis and are based on the Group's best estimate of the likely committed cash outflow. Where relevant, these estimated outflows are discounted to net present value.

Employee incentive schemes

Provisions for employee incentive schemes relate to HMRC unapproved equity settled schemes and the Cash-Based Long Term Incentive Plan ("Cash LTIP"). For all unapproved schemes and the Cash LTIP, the Group is liable to pay employer's NIC upon allotment of the share awards.

Unapproved schemes are the 2013 and 2014 Long Term Incentive Plan ("LTIP"), the Chairman's Share Matching Award and the Growth Incentive Plan ("GIP"). For more details on these schemes, refer to note 4.12.

During the year, the Group established the Cash LTIP in order to incentivise selected high performing employees of the Company. At the end of the three-year vesting period, employees will be paid a cash amount equal to the notional number of awards at the prevailing share price, adjusted for the achievement of the performance conditions.

Provisions

	Insurance claims £m	Dilapidations £m	Employee incentive schemes £m	Total £m
As at 2 December 2012	0.5	2.1	—	2.6
Charged/(credited) to the income statement				
— additional provision	0.4	0.7	—	1.1
Unused during the period	(0.1)	—	—	(0.1)
Unwind of discount	—	0.1	—	0.1
As at 1 December 2013	0.8	2.9	—	3.7
Charged/(credited) to the income statement				
— additional provision	**0.3**	**0.4**	**1.6**	**2.3**
— unused amounts reversed	**—**	**(0.1)**	**—**	**(0.1)**
Used during the period	**(0.2)**	**(0.1)**	**—**	**(0.3)**
As at 30 November 2014	**0.9**	**3.1**	**1.6**	**5.6**

Analysis of total provisions as at 1 December 2013

	Insurance claims £m	Dilapidations £m	Employee incentive schemes £m	Total £m
Current	0.4	0.1	—	0.5
Non-current	0.4	2.8	—	3.2
	0.8	2.9	—	3.7

3.11 Provisions (continued)

Analysis of total provisions as at 30 November 2014

	Insurance claims £m	Dilapidations £m	Employee incentive schemes £m	Total £m
Current	**0.2**	**0.2**	**—**	**0.4**
Non-current	**0.7**	**2.9**	**1.6**	**5.2**
	0.9	**3.1**	**1.6**	**5.6**

Insurance claims

The Ocado Cell uses statistical information built up over several years to estimate, as accurately as possible, the future out-turn of the total claims value incurred but not reported as at the balance sheet date. In practice the Ocado Cell receives newly reported claims after the end of the underwriting period that have to be allocated to the year of loss (i.e. the underwriting year of occurrence). The calculation of this provision involves estimating a number of variables, principally the level of claims which may be received and the level of any compensation which may be payable. Uncertainty associated with these factors may result in the ultimate liability being different from the reported provision. Although it is expected that £0.2 million claims will be settled within 12 months of the balance sheet date, the exact timing of utilisation of the provision is uncertain.

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. The CFC2 lease expires in 2038.

Leases for vans run for five years, with the contractual obligation per van 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.

Employee incentive schemes

The provision consists of the Cash LTIP and employer's NIC on HMRC unapproved equity-settled schemes. The Cash LTIP provision represents the expected cash payments to participants upon vesting of the awards. It has been calculated using various assumptions regarding liquidity, participants' retention and achievability of the performance conditions. If at any point following initial valuation any of these assumptions are revised, the charge will need to be amended accordingly. In addition to the base cost, since this is a cash benefit, the Group will be liable to pay employer's NIC on the value of the cash award upon allotment, which is included in the above employer's NIC provision.

To calculate the employer's NIC provision, the applicable employers NIC rate is applied to the number of share awards which are expected to vest, valued with reference to the year-end share price. The number of share awards expected to vest is dependent on various assumptions which are determined by management; namely participants' retention rate, the expectation of meeting the performance criteria, if any, and the liquidity discount. All assumptions are supported by historical trends and internal financial forecasts, where appropriate.

For the GIP, an external valuation was carried out to determine the fair value of the awards granted (see Note 4.12 (g)).

If at any point during the life of each share award, any non-market conditions are subject to change, such as the retention rate or the likelihood of the performance condition being met, the number of share awards likely to vest will need to be recalculated which will cause the value of the employer's NIC provision to change accordingly.

3.11 Provisions (continued)

Once the share awards under each of the schemes have vested, the provision will be utilised when they are exercised by participants. Vesting will occur between 2016 and 2019.

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 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 Consolidated 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 Group. All other leases are classified as operating leases. For property leases, the land and building elements are accounted for separately after determining 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, the assets are expected to be sold at fair value, and accordingly the profit or loss from the sale is recognised immediately in the Consolidated income statement.

Lease incentives

Lease incentives primarily include upfront cash payments or rent-free periods. Lease incentives are capitalised and released against the relevant rental expense over the lease term.

4.1 Leases and borrowings (continued)

Critical accounting estimates and assumptions

The Group has a number of complex high value lease arrangements. The Group 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 Group 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.

4.2 Borrowings and finance leases

	Notes	**30 November 2014 £m**	1 December 2013 £m
Current liabilities			
Borrowings		**4.4**	3.3
Obligations under finance leases	4.3	**26.5**	25.0
		30.9	28.3
Non-current liabilities			
Borrowings		**2.3**	6.2
Obligations under finance leases	4.3	**142.5**	126.9
		144.8	133.1
Total borrowings and finance leases		**175.7**	161.4

Borrowings

	Less than one year £m	Between one year and two years £m	Between two years and five years £m	Total £m
As at 1 December 2013				
Secured loans	3.3	4.0	2.2	9.5
Total borrowings	3.3	4.0	2.2	9.5
As at 30 November 2014				
Secured loans	4.4	1.8	0.5	6.7
Total borrowings	**4.4**	**1.8**	**0.5**	**6.7**

4.2 Borrowings and finance leases (continued)

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

Principal amount £m	Inception	Secured over	Current interest rate	Instalment frequency	Final payment due	**Carrying amount as at 30 November 2014 £m**	Carrying amount as at 1 December 2013 £m
8.0	May 07	Property, plant and equipment	Clearing bank base rate + 3.0%	Quarterly	Feb 15	**0.8**	2.4
1.5	Dec 06	Freehold property	LIBOR + 2.75%	Quarterly	Feb 15	**0.4**	0.5
1.5	Feb 09	Freehold property	LIBOR + 2.75%	Quarterly	Feb 15	**0.6**	0.8
2.8	Dec 09	Freehold property	LIBOR + 2.75%	Quarterly	Dec 15	**1.5**	1.7
2.6	July 12	Freehold property	LIBOR + 2.75%	Quarterly	July 15	**1.9**	2.2
2.5	July 12	Property, plant and equipment	9.12%‡	Monthly	July 17	**1.5**	1.9
						6.7	9.5
Disclosed as:							
Current						**4.4**	3.3
Non-current						**2.3**	6.2
						6.7	9.5

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

During the year a three-year £100 million revolving credit facility was entered into with Barclays, HSBC, RBS and Santander. As at 30 November 2014 the facility remains unutilised. The facility contains restrictions concerning dividend payments and additional debt and leases.

4.3 Obligations under finance leases

	30 November 2014 £m	1 December 2013 £m
Obligations under finance leases due:		
Within one year	**26.5**	25.0
Between one and two years	**22.4**	20.7
Between two and five years	**56.0**	46.3
After five years	**64.1**	59.9
Total obligations under finance leases	**169.0**	151.9

4.3 Obligations under finance leases (continued)

External obligations under finance leases are £38.2 million (2013: £39.2 million) excluding £130.8 million (2013: £112.7 million) payable to MHE JVCo, a joint venture company.

	30 November 2014 £m	1 December 2013 £m
Minimum lease payments due:		
Within one year	**34.9**	31.9
Between one and two years	**29.3**	26.8
Between two and five years	**70.4**	59.4
After five years	**71.0**	67.6
	205.6	185.7
Less: future finance charges	**(36.6)**	(33.8)
Present value of finance lease liabilities	**169.0**	151.9
Disclosed as:		
Current	**26.5**	25.0
Non-current	**142.5**	126.9
	169.0	151.9

The existing finance lease arrangements entered into by the Group 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.

4.4 Analysis of net debt

Net debt

	Notes	**30 November 2014 £m**	1 December 2013 £m
Current assets			
Cash and cash equivalents	3.9	**76.3**	110.5
Current liabilities			
Borrowings	4.2	**(4.4)**	(3.3)
Obligations under finance leases	4.3	**(26.5)**	(25.0)
		(30.9)	(28.3)
Non-current liabilities			
Borrowings	4.2	**(2.3)**	(6.2)
Obligations under finance leases	4.3	**(142.5)**	(126.9)
		(144.8)	(133.1)
Total net debt		**(99.4)**	(50.9)

Net cash is £31.4 million (2013: £61.8 million), excluding finance lease obligations of £130.8 million (2013: £112.7 million) payable to MHE JV Co, a joint venture company. £2.3 million (2013: £1.7 million) of the Group's cash and cash equivalents are considered to be restricted and are not available to circulate within the Group on demand. For more information see Note 3.9.

4.4 Analysis of net debt (continued)

Reconciliation of net cash flow to movement in net debt

	30 November 2014 £m	1 December 2013 £m
Net (decrease)/increase in cash and cash equivalents	**(34.2)**	20.9
Net decrease in debt and lease financing	**33.4**	24.1
Non-cash movements:		
— Assets acquired under finance lease	**(47.7)**	(122.4)
— Debt settled by third party	**—**	85.3
— Net movement in arrangement fees charged against loans	**—**	(3.6)
Movement in net debt in the period	**(48.5)**	4.3
Opening net debt	**(50.9)**	(55.2)
Closing net debt	**(99.4)**	(50.9)

4.5 Finance income and costs

Accounting policies

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.

Finance income and costs

Interest income is accounted for on an accruals basis using the effective interest method.

Finance costs comprise obligations on finance leases and borrowings and are recognised in the period in which they fall due.

Finance income and costs

	52 weeks ended 30 November 2014 £m	52 weeks ended 1 December 2013 £m
Interest on cash balances	**0.4**	0.4
Finance income	**0.4**	0.4
Borrowing costs		
— Obligations under finance leases	**(8.7)**	(4.7)
— Borrowings	**(0.9)**	(3.6)
Capitalised borrowing costs	**—**	1.1
Fair value movement in derivative financial instruments	**0.1**	(0.2)
Finance costs	**(9.5)**	(7.4)
Net finance costs	**(9.1)**	(7.0)

The fair value movement in derivative financial instruments arose from fair value adjustments on the Group's cash flow hedges.

4.6 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 30 November 2014 the Group's derivative financial instruments consist of forward foreign exchange contracts which are designated as cash flow hedges of highly probable forecast transactions.

The Group 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 Consolidated statement of comprehensive income. The full fair value of hedging derivatives is 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 other comprehensive income. Amounts accumulated through other comprehensive income 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 Group's cash flow hedges were 100% effective and there is therefore no ineffective portion recognised in profit or loss.

	30 November 2014 £m	1 December 2013 £m
Derivative liability		
Forward foreign exchange contracts (cash flow hedges)	**(0.2)**	(0.2)
	(0.2)	(0.2)

Forward foreign exchange contracts

The notional principal amounts of the outstanding forward foreign exchange contracts at 30 November 2014 were €3.8 million (2013: €21.8 million). The corresponding amount in sterling as at 30 November 2014 was £3.2 million (2013: £18.3 million).

The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next three months. Cumulative gains and losses recognised in the hedging reserve within other comprehensive income are £0.4 million of losses (2013: £0.4 million of gains). 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 swaps

In the previous financial year, the Group terminated all interest rate swaps upon repayment and cancellation of the £100 million credit facility. As a result, there were no notional amounts of interest rate swaps as at 30 November 2014, nor as at 1 December 2013.

4.7 Financial instruments

Accounting policies

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

The Group 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 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 Group 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 Group 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.

4.7 Financial instruments (continued)

Fair value of financial instruments

Financial instruments carried at fair value in the Balance Sheet comprise the derivative assets and liabilities — see Note 4.6. The Group 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 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 (level 3).

The Group'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:

		30 November 2014		1 December 2013	
	Notes	**Carrying value £'000**	**Fair value £'000**	Carrying value £'000	Fair value £'000
Financial assets					
Cash and cash equivalents	3.9	**76.3**	**76.3**	110.5	110.5
Trade receivables	3.8	**9.6**	**9.6**	23.1	23.1
Other receivables (incl. accrued income, excl. prepayments)	3.8	**26.9**	**26.9**	17.1	17.1
Available-for-sale financial asset	3.3	**0.4**	**0.4**	0.4	0.4
Total financial assets		**113.2**	**113.2**	151.1	151.1
Financial liabilities					
Trade payables	3.10	**(61.3)**	**(61.3)**	(53.0)	(53.0)
Accruals	3.10	**(46.6)**	**(46.6)**	(42.0)	(42.0)
Borrowings	4.2	**(6.7)**	**(6.7)**	(9.5)	(9.6)
Finance lease obligations	4.3	**(169.0)**	**(169.0)**	(151.9)	(152.0)
Derivative liabilities	4.6	**(0.2)**	**(0.2)**	(0.2)	(0.2)
Total financial liabilities		**(283.8)**	**(283.8)**	(256.6)	(256.8)

The derivative liabilities relate to forward foreign exchange contracts.

The Group'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% (2013: 3.0%).

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.

4.7 Financial instruments (continued)

The Group has categorised its financial instruments as follows:

	Notes	Available-for-sale £m	Loans and receivables £m	Financial liabilities at amortised cost £m	Financial liabilities at fair value through profit and loss £m	Total £m
As at 1 December 2013						
Financial assets as per the Balance sheet						
Cash and cash equivalents	3.9	—	110.5	—	—	110.5
Trade and other receivables (excluding prepayments)	3.8	—	40.1	—	—	40.1
Available-for-sale financial asset	3.3	0.4	—	—	—	0.4
Total		0.4	150.6	—	—	151.0
Financial liabilities as per the Balance sheet						
Trade payables	3.10	—	—	53.0	—	53.0
Accruals	3.10	—	—	42.0	—	42.0
Borrowings	4.2	—	—	9.5	—	9.5
Obligations under finance leases	4.3	—	—	151.9	—	151.9
Derivative liabilities	4.6	—	—	—	0.2	0.2
Total		—	—	256.4	0.2	256.6

	Notes	**Available-for-sale £m**	**Loans and receivables £m**	**Financial liabilities at amortised cost £m**	**Financial liabilities at fair value through profit and loss £m**	**Total £m**
As at 30 November 2014						
Financial assets as per the Balance sheet						
Cash and cash equivalents	3.9	**—**	**76.3**	**—**	**—**	**76.3**
Trade and other receivables (excluding prepayments)	3.8	**—**	**36.5**	**—**	**—**	**36.5**
Available-for-sale financial asset	3.3	**0.4**	**—**	**—**	**—**	**0.4**
Total		**0.4**	**112.8**	**—**	**—**	**113.2**
Financial liabilities as per the Balance sheet						
Trade payables	3.10	**—**	**—**	**61.3**	**—**	**61.3**
Accruals	3.10	**—**	**—**	**46.6**	**—**	**46.6**
Borrowings	4.2	**—**	**—**	**6.7**	**—**	**6.7**
Obligations under finance leases	4.3	**—**	**—**	**169.0**	**—**	**169.0**
Derivative liabilities	4.6	**—**	**—**	**—**	**0.2**	**0.2**
Total		**—**	**—**	**283.6**	**0.2**	**283.8**

4.8 Credit risk

Credit risk

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

4.8 Credit risk (continued)

Exposure to credit risk

The carrying value of these financial assets, as set out in Note 4.7, represents the maximum credit exposure. No collateral is held as security against these assets.

Cash and cash equivalents

The Group'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.

Trade and other receivables

Trade and other receivables at the period end comprise mainly monies due from suppliers, which are considered of a good credit quality, as well as VAT receivables. The Group provides for doubtful receivables in respect of monies due from suppliers.

The Group has very low retail credit risk due to transactions being principally of a high volume, low value and short maturity. The Group has effective controls over this area. The Group has allowed 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 allowance for the impairment of trade and other receivables are as follows:

	Notes	**30 November 2014 £m**	1 December 2013 £m
At the beginning of the period		**(0.5)**	(0.3)
Provision for impairment of receivables		**(2.5)**	(0.2)
Uncollectable amounts written off		**(0.5)**	—
Recovery of amounts previously provided		**0.5**	—
At the end of the period	3.8	**(3.0)**	(0.5)

4.9 Liquidity risk

The Group has adequate cash resources to manage the short-term working capital needs of the business. The Group may need to negotiate sufficient future financing arrangements, however in the year a 3-year £100 million revolving facility was entered into with Barclays, HSBC, RBS and Santander, and as at 30 November 2014 the facility remained unutilised.

The Group monitors its liquidity requirements to ensure it has sufficient cash to meet operational needs. For further details see Note 4.13.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date at the Balance sheet 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
Financial liabilities							
Trade payables	3.10	(53.0)	(53.0)	(53.0)	—	—	—
Accruals	3.10	(42.0)	(42.0)	(42.0)	—	—	—
Borrowings	4.2	(9.5)	(10.3)	(3.7)	(4.3)	(2.3)	—
Obligations under finance leases	4.3	(151.9)	(185.7)	(31.9)	(26.8)	(59.4)	(67.6)
Derivative liabilities	4.6	(0.2)	(0.2)	(0.2)	—	—	—
1 December 2013		(256.6)	(291.2)	(130.8)	(31.1)	(61.7)	(67.6)

4.9 Liquidity risk (continued)

	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
Financial liabilities							
Trade payables	3.10	**(61.3)**	**(61.3)**	**(61.3)**	**—**	**—**	**—**
Accruals	3.10	**(46.6)**	**(46.6)**	**(46.6)**	**—**	**—**	**—**
Borrowings	4.2	**(6.7)**	**(6.9)**	**(4.5)**	**(1.9)**	**(0.5)**	**—**
Obligations under finance leases	4.3	**(169.0)**	**(205.6)**	**(34.9)**	**(29.3)**	**(70.4)**	**(71.0)**
Derivative liabilities	4.6	**(0.2)**	**(0.2)**	**(0.2)**	**—**	**—**	**—**
30 November 2014		**(283.8)**	**(320.6)**	**(147.5)**	**(31.2)**	**(70.9)**	**(71.0)**

4.10 Market risk

Currency risk

The Group has foreign currency exposure in relation to its foreign currency trade payables 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 Group'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 Group's exposure to currency risk is based on the following amounts:

	30 November 2014 £m	1 December 2013 £m
Cash and cash equivalents — EUR	**0.7**	0.6
Cash and cash equivalents — PLN	**0.3**	0.1
Trade payables at period end — EUR	**(0.4)**	(3.4)
Trade payables at period end — USD	**(0.1)**	—
Derivative liability (forward foreign exchange contracts) — EUR	**(0.2)**	(0.2)
	0.3	(2.9)

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

	30 November 2014		1 December 2013	
	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	**(0.1)**	**0.3**	(0.4)	1.8
10% depreciation of the euro	**0.1**	**(0.3)**	0.4	(1.8)

A movement of the euro, as indicated, against sterling at 30 November 2014 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 Group considered to be reasonably possible at the end of the period. The analysis assumes that all other variables remain constant.

Interest rate risk

The Group is exposed to interest rate risk on its floating rate interest bearing borrowings and floating rate cash and cash equivalents. The Group'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 floating rate interest bearing borrowings is not significant.

4.10 Market risk (continued)

At the Balance sheet date the interest rate profile of the Group's interest bearing financial instruments was:

	30 November 2014 £m	1 December 2013* £m
Fixed rate instruments		
Financial assets	**50.8**	76.4
Financial liabilities	**(169.0)**	(153.8)
Variable rate instruments		
Financial assets	**25.5**	34.0
Financial liabilities	**(6.7)**	(7.5)

* A financial liability with a value of £112.7 million as at 1 December 2013 has been reclassified from variable rate instruments to fixed rate instruments.

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 assessed as being 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.

	30 November 2014 £m	1 December 2013 £m
Equity		
Gain	—	—
Income		
Gain	**0.1**	0.1

4.11 Share capital and reserves

Accounting policy

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

Share capital and reserves

As at 30 November 2014, the number of ordinary shares available for issue under the Block Listing Facilities was 19,094,500 (2013: 6,221,636). These ordinary shares will only be issued and allotted when the shares under the relevant share incentive plan have been awarded or the share options under the Group's executive share ownership scheme and non-employee share options and Sharesave schemes have been exercised. They are therefore not included in the total number of ordinary shares outstanding below.

4.11 Share capital and reserves (continued)

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

	Ordinary shares Number of shares (million)	Ordinary shares £m	Share premium £m
At 2 December 2012	614.6	12.3	247.8
Issues of ordinary shares	3.1	0.1	3.7
At 1 December 2013	617.7	12.4	251.5
Issues of ordinary shares	**0.5**	**—**	**0.1**
Allotted in respect of Joint Share Ownership Scheme	**—**	**—**	**0.2**
Allotted in respect of share option schemes	**2.7**	**0.1**	**3.3**
At 30 November 2014	**620.9**	**12.5**	**255.1**

Included in the total number of ordinary shares outstanding above are 34,810,561 (2013: 35,249,176) ordinary shares held by the Group's employee benefit trust (see Note 4.11(a)). The ordinary shares held by the trustee of the Group's employee benefit trust pursuant to the Joint Share Ownership scheme are treated as treasury shares in the Consolidated balance sheet in accordance with IAS 32 ''Financial Instruments: Presentation''. These ordinary shares have voting rights but these have been waived by the trustee (although the trustee may vote in respect of shares that have vested and remain in the trust). The number of allotted, called up and fully paid shares, excluding treasury shares, at the end of each period differs from that used in the basic profit/(loss) per share calculation in Note 2.9 as basic profit/(loss) per share is calculated using the weighted average number of ordinary shares in issue during the period, excluding treasury shares.

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

	Notes	Treasury shares reserve £m	Reverse acquisition reserve £m	Fair value reserve £m
At 2 December 2012		(53.9)	(116.2)	(0.7)
Movement on derivative financial instrument	4.11(b)	—	—	0.6
Reacquisition of interest in treasury shares	4.11(a)	1.5	—	—
At 1 December 2013		(52.4)	(116.2)	(0.1)
Movement on derivative financial instrument	4.11(b)	**—**	**—**	**(0.2)**
Reacquisition of interest in treasury shares	4.11(a)	**0.6**	**—**	**—**
At 30 November 2014		**(51.8)**	**(116.2)**	**(0.3)**

(a) Treasury shares reserve

This reserve arose when the Group issued equity share capital under its JSOS, which is held in trust by the trustee of the Group's employee benefit trust. Treasury shares cease to be accounted for as such when they are sold outside the Group or the interest is transferred in full to the participant pursuant to the terms of the JSOS. Participant interests in unexercised shares held by participants are not included in the calculation of treasury shares; unvested interests of leavers which have been reacquired by the Group's employee benefit trust during the period are now accounted for as treasury shares. See Note 4.12(b) for more information on the JSOS.

(b) Other reserves

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

4.11 Share capital and reserves (continued)

The acquisition by the Company of the entire issued share capital in 2010 of Ocado Limited was accounted for as a reverse acquisition under IFRS 3 (revised). Consequently the previously recognised book values and assets and liabilities have been retained and the consolidated financial information for the period to 30 November 2014 has been presented as if the Company had always been the parent company of the Group.

4.12 Share-based payments

Accounting policies

Employee benefits

Employees (including Directors) of the Group receive part of their remuneration in the form of share-based payments, whereby, depending on the scheme, employees render services in exchange for rights over shares ("equity-settled transactions") or entitlement to a future cash payment ("cash-settled transactions").

The cost of equity-settled transactions with employees is measured, where appropriate, with reference to the fair value at the date on which they are granted. Where options need to be valued an appropriate valuation model is applied. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The cost of cash-settled transactions is measured with reference to the fair value of the liability, which is taken to be the closing price of the Company's shares. Until the liability is settled it is remeasured at the end of each reporting period and at the date of settlement, with any changes in the fair value being recognised in the Income statement for the period. For more details please refer to Note 3.11 Provisions — Employee incentive schemes.

The cost of equity-settled transactions is recognised, along with a corresponding increase in equity, over the years in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date"). The cost of cash-settled transactions is recognised, along with a corresponding provision for the expected cash settlement, over the vesting period.

At each reporting date, the cumulative expense recognised for equity-settled transactions reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of management, will ultimately vest. Management's estimates are based on the best available information at that date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

The Group has exposure in respect of cash-settled share-based payment transactions and share-based payment transactions with cash alternatives as defined by IFRS 2 "Share-Based Payment" in respect of bad leaver provisions in the Group's JSOS and the Cash LTIP (see Note 3.11 Provisions). National insurance contribution (NIC) obligations arising from cash-settled schemes and HMRC unapproved equity-settled schemes are treated as if they are cash settled, regardless of the actual cash/equity determination of the scheme itself.

Share options and other equity instruments

The Group operates various employee share incentive schemes, namely the Executive Share Ownership Scheme (the "ESOS"), the Joint Share Ownership Scheme (the "JSOS"), the Sharesave Scheme, the Long Term Incentive Plan ("LTIP"), the Growth Incentive Plan ("GIP") and the share incentive plan ("SIP"). The Group also operates a cash-settled incentive scheme, the Cash LTIP.

4.12 Share-based payments (continued)

The total expense for the period relating to employee share-based payment plans was £6.0 million (2013: £3.3 million), of which £4.4 million related to equity-settled share-based payment transactions and £1.6 million as a provision for the payment of employers' NIC upon allotment of HMRC unapproved equity-settled share schemes and for the Cash LTIP (see Note 3.11 Provisions for further details).

(a) ESOS

The Group's ESOS is an equity-settled share option scheme approved by HMRC. Options have also be granted under the terms of HMRC's schedule, which is not approved. The ESOS was established by Ocado in 2001.

Under the ESOS, Ocado or the trustees of an employee trust may grant options over shares in the Company to eligible employees. The eligible employees to whom options are granted and the terms of such options will be determined by the Directors of Ocado or the trustees. The employees who are eligible to participate in the ESOS are all Ocado's Executive Directors and employees, including the employees of the Company's subsidiaries. Options are not transferable. The exercise price of options may not be less than the market value of the Company's shares on the date of grant. If the trustees or the Directors have determined that the exercise of an option will be satisfied by the issue of ordinary shares, the exercise price may also not be less than the nominal value of ordinary shares.

The Directors of Ocado or the trustees may impose a performance target and any further condition determined to be appropriate on the exercise of an option. In most cases any performance target must be measured over a period of at least three years. There are currently no options granted which are subject to performance targets that have not yet been met. The vesting period for the ESOS is three years. If the options remain unexercised after a period of ten years from the date of grant or the employee leaves the Group, the options expire (subject to a limited number of exceptions).

At each respective Balance sheet date the outstanding options were as follows:

	Year of issue	**30 November 2014**	**Exercise price (£)**	1 December 2013	Exercise price (£)	Exercise period
Approved	2004	**—**	**0.90**	28,923	0.90	31/05/07–29/11/14
	2005	**85,333**	**1.00**	115,109	1.00	31/05/08–29/11/15
	2005	**4,782**	**1.15**	13,752	1.15	31/05/08–30/05/15
	2006	**8,086**	**1.40**	9,145	1.40	31/05/09–30/05/16
	2006	**5,960**	**1.50**	9,205	1.50	30/11/09–29/11/16
	2007	**107,527**	**1.50**	128,129	1.50	31/05/10–29/11/17
	2008	**26,570**	**1.35**	38,545	1.35	31/05/11–30/05/18
	2008	**52,358**	**1.20**	86,927	1.20	30/11/11–29/11/18
	2009	**49,039**	**1.20**	51,772	1.20	31/05/12–30/05/19
	2009	**201,311**	**1.35**	279,714	1.35	02/11/12–29/11/19
	2010	**230,958**	**1.65**	333,623	1.65	30/06/13–29/06/20
	2011	**125,269**	**1.89**	181,271	1.89	19/07/14–18/07/21
	2011	**265,581**	**2.55**	584,993	2.55	14/02/14–13/02/21
	2012	**372,278**	**0.85**	417,070	0.85	27/06/15–26/06/22
	2012	**681,389**	**1.03**	786,556	1.03	21/02/15–13/02/22
	2012	**817,864**	**1.05**	850,732	1.05	09/03/15–08/03/22
	2013	**661,462**	**1.28**	856,442	1.28	05/03/16–04/03/23
	2013	**210,343**	**3.02**	291,669	3.02	08/07/16–07/07/23
	2014	**65,585**	**5.10**	—	—	05/02/14–04/02/24
	2014	**453,353**	**4.84**	—	—	17/03/14–16/03/24
	2014	**1,278**	**3.36**	—	—	01/08/14–31/07/24
Total approved options		**4,426,326**		5,063,577		

4.12 Share-based payments (continued)

	Year of issue	**30 November 2014**	**Exercise price (£)**	1 December 2013	Exercise price (£)	Exercise period
Unapproved	2005	**—**	**1.00**	754	1.00	30/11/08–29/11/15
	2005	**354,150**	**1.15**	582,950	1.15	16/05/08–29/11/15
	2007	**50,833**	**1.50**	50,833	1.50	31/05/10–30/05/17
	2009	**122,600**	**1.20**	122,600	1.20	31/05/12–30/05/19
	2012	**135,166**	**1.05**	112,076	1.05	09/03/15–08/03/22
	2014	**13,512**	**3.27**	—	—	08/08/14–07/08/24
	2014	**29,962**	**3.36**	—	—	01/08/14–31/07/24
	2014	**25,756**	**4.84**	—	—	17/03/14–16/03/24
Total unapproved options		**731,979**		869,213		
Total		**5,158,305**		5,932,790		

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

		30 November 2014		1 December 2013		
	Year of issue	**Number of share options**	**Exercise price (£)**	Number of share options	Exercise price (£)	Exercise period
	2005	**31,116**	**1.15**	53,001	1.15	31/05/08–30/05/15
	2009	**139,600**	**1.20**	139,600	1.20	31/05/12–30/05/19
Total options subject to performance criteria		**170,716**		192,601		

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

	30 November 2014		1 December 2013	
	Number of share options	**Weighted average exercise price (£)**	Number of share options	Weighted average exercise price (£)
Outstanding at the beginning of the period	**5,932,790**	**1.42**	8,835,578	1.33
Granted during the period	**603,779**	**4.75**	1,479,220	1.71
Forfeited during the period	**(522,409)**	**1.66**	(1,722,506)	1.56
Exercised during the period	**(855,855)**	**1.73**	(2,659,502)	1.31
Outstanding at the end of the period	**5,158,305**	**1.73**	5,932,790	1.42
Exercisable at the end of the period	**1,690,357**	**1.55**	1,895,710	1.31

Since the Company's Admission, the market value of the Company's shares at each option grant date was taken to be the closing mid-market price of the shares on the day prior to issuance. Prior to the Admission, the market value of the Company's shares was derived based on the market value of similar companies and by taking into account transactions with shareholders during the relevant period. The Share Valuation Office of HMRC has confirmed in correspondence that in respect of options granted prior to Admission, the exercise price was not less than the market value of the Company's shares at each option grant date.

For exercises during the period, the weighted average share price at the date of exercise was £4.64 (2013: £2.92).

4.12 Share-based payments (continued)

In determining the fair value of the share options granted during the period, the Black–Scholes Option Pricing Model was used with the following inputs:

	30 November 2014	1 December 2013
Weighted average share price	**£4.75**	£1.71
Weighted average exercise price	**£4.75**	£1.71
Expected volatility	**0.40**	0.25
Weighted expected life — years	**3.00**	3.00
Risk-free interest rate	**1.2%**	3.5%
Expected dividend yield	**0.0%**	0.0%

Given the immaturity of the Company's share history, the expected volatility was determined by considering the historic performance of the shares of a basket of companies similar to and including the Company. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. All share awards under the ESOS are equity-settled.

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

	30 November 2014			1 December 2013		
	Exercise price (£)	**Number of share options**	**Weighted average remaining contractual life (years)**	Exercise price (£)	Number of share options	Weighted average remaining contractual life (years)
	0.85	**372,278**	**7.6**	0.85	417,070	8.6
	0.90	**—**	**—**	0.90	28,923	0.8
	1.00	**85,333**	**0.9**	1.00	115,863	1.9
	1.03	**681,389**	**7.2**	1.03	786,556	8.2
	1.05	**953,030**	**7.3**	1.05	962,808	8.3
	1.15	**358,932**	**0.5**	1.15	596,702	1.5
	1.20	**223,997**	**4.4**	1.20	261,299	5.4
	1.28	**661,462**	**8.3**	1.28	856,442	9.3
	1.35	**227,881**	**4.8**	1.35	318,259	5.8
	1.40	**8,086**	**1.5**	1.40	9,145	2.5
	1.50	**164,320**	**2.6**	1.50	188,167	3.6
	1.65	**230,958**	**5.6**	1.65	333,623	6.6
	1.89	**125,269**	**6.6**	1.89	181,271	7.6
	2.55	**265,581**	**6.2**	2.55	584,993	7.2
	3.02	**210,343**	**8.6**	3.02	291,669	9.6
	3.27	**13,512**	**9.7**	—	—	—
	3.36	**31,240**	**9.7**	—	—	—
	4.84	**479,109**	**9.3**	—	—	—
	5.10	**65,585**	**9.2**	—	—	—
Outstanding at the end of the period		**5,158,305**			5,932,790	

(b) JSOS

The JSOS is an executive incentive scheme which was introduced to incentivise and retain its Executive Directors and select members of senior management of the Group (the "Participants"). It is a share ownership scheme under which the Participants and Appleby Trust (Jersey) Limited, the Employee Benefit Trust Trustee, held at the Balance sheet date separate beneficial interests in 34,810,561 (2013: 35,249,176) ordinary shares which represents 5.6% (2013: 5.7%) of the issued share capital of the Company. Of these ordinary shares, 1,453,254 (2013: 1,453,254) are held by the Employee Benefit Trust on an unallocated basis.

4.12 Share-based payments (continued)

Nature of interests

Interests take the form of a restricted interest in ordinary shares in the Company (the "Interest"). An Interest permits a Participant to benefit from the increase (if any) in the value of a number of ordinary shares in the Company ("Shares") over specified threshold amounts. In order to acquire an Interest, a Participant must enter into a joint share ownership agreement with the Employee Benefit Trust Trustee, under which the Participant and the Employee Benefit Trust Trustee jointly acquire the Shares and agree that once all vesting conditions have been satisfied the participant is awarded a specific number of Shares equivalent to the benefit achieved, or at their discretion, when the Shares are sold, the Participant has a right to receive a proportion of the sale proceeds insofar as the value of the Shares exceeds the threshold amount.

Participants

In prior periods Interests were acquired by the Participants under the first JSOS scheme ("JSOS1") in 32,476,700 Shares at an issue price of £1.50 per share, and the second group of Participants' JSOS scheme ("JSOS2") in 3,990,799 Shares at an issue price of £1.70 per share. In the prior period, 2,953,675 Shares in which interests of Participants have lapsed were reallocated to the third group of Participants under the JSOS scheme ("JSOS3"). For JSOS1 and JSOS2 there are four tranches, each with their own hurdle price. For JSOS3 there are two tranches, each with their own hurdle price.

JSOS1				JSOS2				JSOS3			
Tranche	Vesting date	Hurdle value	% of issue price	Tranche	Vesting date	Hurdle value	% of issue price	Tranche	Vesting date	Hurdle value	% of market price
1 (2011)	Jan 11	£1.73	115%	1 (2012)	June 12	£1.96	115%	1 (2013)	Jan 13	£1.70	230%–265%
2 (2012)	Jan 12	£1.91	127%	2 (2013)	June 13	£2.15	127%	2 (2014)	Jan 14	£1.80	244%–280%
3 (2013)	Jan 13	£2.08	139%	3 (2014)	June 14	£2.36	139%	—	—	—	—
4 (2014)	Jan 14	£2.28	152%	4 (2015)	June 15	£2.59	152%	—	—	—	—

For JSOS1, Participants were required to purchase their Interest for 2.0% of the issue price. For JSOS2, the price was in a range of 7.1% to 10.8%, and for JSOS3, the price was in a range of 1.47% to 1.70% of the share price at date of issue. When an Interest vests, the Employee Benefit Trust Trustee will transfer Shares to the Participant of equal value to the Participant's Interest or the Shares will be sold and the Employee Benefit Trust Trustee will account to the Participant for the balance, i.e. the difference between the sale proceeds (less expenses) and the hurdle price.

Vesting conditions

The vesting of the Interests granted to Participants is subject to a time vesting condition, as detailed above.

The fair value of the Interests awarded under the JSOS was determined using the Black — Scholes Option Pricing Model. As per IFRS 2 "Share-Based Payment", market-based vesting conditions and the share price target conditions in the JSOS have been taken into account in establishing the fair value of the equity instruments granted. Other non-market or performance-related conditions were not taken into account in establishing the fair value of equity instruments granted; instead, these non-market vesting conditions are taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount so that ultimately the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that will eventually vest.

4.12 Share-based payments (continued)

In determining the fair value of the Interests granted, the Black–Scholes Option Pricing Model was used with the following inputs:

JSOS1	Tranche 1	Tranche 2	Tranche 3	Tranche 4
Weighted average Share price	£1.35	£1.35	£1.35	£1.35
Weighted average exercise price	£1.73	£1.91	£2.08	£2.28
Expected volatility	0.25	0.25	0.25	0.25
Weighted expected life — years	0.91	1.91	2.91	3.91
Risk-free interest rate	3.5%	3.5%	3.5%	3.5%
Expected dividend yield	0.0%	0.0%	0.0%	0.0%

JSOS2	Tranche 1	Tranche 2	Tranche 3	Tranche 4
Weighted average Share price	£1.70	£1.70	£1.70	£1.70
Weighted average exercise price	£1.96	£2.15	£2.36	£2.59
Expected volatility	0.25	0.25	0.25	0.25
Weighted expected life — years	1.0	2.0	3.0	4.0
Risk-free interest rate	3.5%	3.5%	3.5%	3.5%
Expected dividend yield	0.0%	0.0%	0.0%	0.0%

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

As the Interests in JSOS3 were reallocated from lapsed Interests in JSOS1 and JSOS2, the fair value of those Interests had been calculated in prior periods using the inputs disclosed in the tables above.

Details of the movement in the number of Interests in Shares during each period are as follows:

	30 November 2014		1 December 2013	
	Number of interests in Shares	**Weighted average exercise price (£)**	Number of interests in Shares	Weighted average exercise price (£)
Outstanding at the beginning of the period	**33,795,922**	**1.99**	34,851,845	1.99
Granted during the period	**—**	**—**	—	—
Forfeited during the period	**—**	**—**	—	—
Exercised during the period	**(438,615)**	**2.02**	(1,055,923)	1.82
Outstanding at the end of the period	**33,357,307**	**2.00**	33,795,922	1.99
Exercisable at the end of the period	**32,503,642**	**1.98**	23,934,156	1.90

(c) Non-employee share options

Options to subscribe for ordinary shares and convertible preference shares have been granted by Ocado Limited to non-employees. These options are equity-settled, and do not have any vesting criteria. As a result of the Group's restructuring, these options are now held over ordinary shares in Ocado Group plc.

At each respective Balance sheet date the outstanding options were as follows:

	30 November 2014		1 December 2013		
Date of issue	**Number of share options**	**Exercise price (£)**	Number of share options	Exercise price (£)	Exercise period
Feb 02	**—**	**0.90**	886,700	0.90	04/02/02–04/02/17
Jan 04	**435,300**	**1.03**	435,300	1.03	03/01/04–03/01/18
Outstanding at the end of the period	**435,300**		1,322,000		

4.12 Share-based payments (continued)

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

	30 November 2014		1 December 2013	
	Number of share options	**Weighted average exercise price (£)**	Number of share options	Weighted average exercise price (£)
Outstanding at the beginning of the period	**1,322,000**	**0.95**	1,322,000	0.95
Granted during the period	**—**	**—**	—	—
Forfeited during the period	**—**	**—**	—	—
Exercised during the period	**(886,700)**	**0.90**	—	—
Outstanding at the end of the period	**435,300**	**1.03**	1,322,000	0.95
Exercisable at the end of the period	**435,300**	**1.03**	1,322,000	0.95

The weighted average remaining contractual lives for outstanding non-employee share options are as follows:

	30 November 2014			1 December 2013		
	Exercise price (£)	**Number of share options**	**Weighted average remaining contractual life (years)**	Exercise price (£)	Number of share options	Weighted average remaining contractual life (years)
	0.90	**—**	**—**	0.90	886,700	3.2
	1.03	**435,300**	**3.1**	1.03	435,300	4.1
Outstanding at the end of the period		**435,300**			1,322,000	

(d) Sharesave Scheme

In 2010 the Group launched the Ocado Group Sharesave Scheme ("SAYE"). This is an HMRC approved scheme and is open to any person that was an employee or officer of the Group at the launch date. Under the scheme, members save a fixed amount each month for three years. At the end of the three year period they are entitled to use these savings to buy shares in the Company at a price which is determined at launch date; 85% of the market value in the case of the Group's first Sharesave Scheme ("SAYE1") and 90% of the market value in the case of the Group's second Sharesave Scheme ("SAYE2") and third Sharesave Scheme ("SAYE3").

At 30 November 2014 employees of the Company's subsidiaries held 1,528 (2013: 2,049) contracts in respect of options over 3,789,044 (2013: 5,031,578) shares. Details of the movement in the number of Sharesave options outstanding during each period are as follows:

	30 November 2014		1 December 2013	
	Number of share options	**Weighted average exercise price (£)**	Number of share options	Weighted average exercise price (£)
Outstanding at the beginning of the period	**5,031,578**	**1.61**	4,075,994	0.98
Granted during the period	**—**	**—**	1,577,602	3.01
Forfeited during in the period	**(286,625)**	**2.37**	(597,671)	1.02
Exercised during the period	**(955,909)**	**1.16**	(24,347)	1.02
Outstanding at the end of the period	**3,789,044**	**1.67**	5,031,578	1.61
Exercisable at the end of the period	**22,347**	**1.39**	—	—

4.12 Share-based payments (continued)

(e) Long Term Incentive Plan

During the prior period, the Group introduced an equity-settled long term incentive plan ("LTIP") as approved by the Remuneration Committee and shareholders, under which shares are conditionally awarded to Executive Directors and select members of senior management. The number of awards issued are calculated based on a percentage of the participants' salaries and will vest at the end of a period of three years from the grant date. The final number and proportion of awards expected to vest will depend on achievement of certain performance conditions. For the 2013 LTIP, the single performance condition is the Group's earnings before interest, tax and exceptional items ("EBIT") for the financial year ending November 2015 and for the 2014 LTIP, the performance conditions are the Group's revenue and profit/(loss) per share for the financial year ending December 2016.

The number of awards issued, adjusted to reflect the achievement of the performance conditions, will then vest during 2016 for the 2013 LTIP and 2017 for the 2014 LTIP. Full vesting will only therefore occur where exceptional performance levels have been achieved and significant shareholder value created. An award will lapse if a participant ceases to be employed within the Group before the vesting date.

A summary of the status of this LTIP as at 30 November 2014 and changes during the year is presented below:

	Number of share awards 30 November 2014	Number of share awards 1 December 2013
Outstanding at the beginning of the period	**3,365,852**	—
Adjustment to share awards outstanding at the beginning of the period*	**1,582,724**	—
Granted during the period	**672,808**	3,365,852
Forfeited during the period	**(533,536)**	—
Outstanding at the end of the period	**5,087,848**	3,365,852

* The adjustment represents share awards in the prior period to selected members of senior management which were not disclosed in the prior period accounts. This did not impact the accounting entries.

There were no awards exercisable as at 30 November 2014 nor at 1 December 2013.

The Group recognised an expense of £3.8 million (2013: £2.3 million) related to these awards in the Consolidated income statement during the year. The expectation of meeting the performance criteria, based upon internal budgets and forecasts, was taken into account when calculating this expense.

(f) Chairman's Share Matching Award

During the prior period, the Group introduced the equity-settled Chairman's Share Matching Award, under which a one-off award of restricted shares were awarded to the Chairman, Lord Rose, on assuming the role of Chairman.

The award condition is based on a personal investment of a minimum of 400,000 shares and continued membership of the Board. This will vest three years from when the award was approved by the Remuneration Committee. There is no performance criteria to which vesting is subject.

These shares are restricted from being sold while he is on the Board and the shares are not allowed to be sold until the first anniversary of his ceasing to be a member of the Board.

4.12 Share-based payments (continued)

A summary of the status of this Chairman's Share Matching Award as at 30 November 2014 and changes during the year is presented below:

	Number of share awards 30 November 2014	Number of share awards 1 December 2013
Outstanding at the beginning of the period	**452,284**	—
Granted during the period	**—**	452,284
Outstanding at the end of the period	**452,284**	452,284

The Group recognised an expense of £0.4 million (2013: £0.2 million) related to this award in the Consolidated income statement during the year.

(g) Growth Incentive Plan

During the period, the Group introduced an equity-settled Growth Incentive Plan (GIP), under which nil cost shares were conditionally awarded to certain Executive Directors.

The final number and proportion of awards expected to vest will depend on achievement of a performance condition, being the growth in the Company's share price relative to the growth in the FTSE 100 Share Index over a five-year performance period.

These awards will vest in 2019. An award will lapse if a participant ceases to be employed within the Group before the vesting date.

Performance will be assessed based on the three-month average share price of the Company and the FTSE 100 Share Index at the end of the performance period in comparison to the three-month average share price of the Company and the FTSE 100 Share Index prior to the start of the performance period.

In determining the fair value of the awards granted, a unique Monte Carlo model was used with the following inputs:

	30 November 2014
Weighted average share price	**£3.19**
Value of FTSE 100 index	**6,389.25**
Expected correlation	**29%**
Expected volatility of Company	**40%**
Expected volatility of FTSE 100 Index	**16%**
Weighted expected life — years	**5.00**
Risk-free rate	**1.96%**
Expected dividend yield	**0.0%**
Valuation model	**Monte Carlo Pricing**

Expected correlation was determined with reference to the historic share price correlation of the shares in the Company and the FTSE 100 Index over a period commensurate with the terms of the award (i.e. five years).

Expected volatility of the Company was determined by comparing the Company to others of a similar size or which operate in a similar industry. Expected volatility of the FTSE 100 Index was determined by reference to its historic volatility over a period commensurate with the terms of the award (i.e. five years). Volatility is a key estimate in determining the fair value of the GIP award, as the overall charge is most sensitive to changes in this assumption. Management have had regard to an appropriate range of alternative volatility assumptions, and concluded that a change in the volatility within this range would not have a material impact on the financial statements.

4.12 Share-based payments (continued)

The use of the Monte Carlo model and calculation of the associated input parameters requires judgement. Therefore management obtained professional advice to assist in determining the fair value of the awards granted.

A summary of the GIP as at 30 November 2014 and changes during the year is presented below:

	Number of share awards 30 November 2014
Outstanding at the beginning of the year	—
Granted during the year	**6,000,000**
Outstanding at the end of the year	**6,000,000**

There were no awards exercisable as at 30 November 2014.

The Group recognised an expense of £0.9 million related to these awards in the Consolidated income statement during the year. The expectation of meeting the performance criteria was taken into account when calculating this expense.

(h) Share Incentive Plan

During the year, the Group introduced the Ocado Share Incentive Plan ("SIP"). This HMRC approved scheme provides all employees, including Executive Directors, the opportunity to receive and invest in Company shares. All SIP shares are held in a SIP Trust, administered by Yorkshire Building Society.

There are two elements in the plan — the Buy As You Earn ("BAYE") arrangement and the Free Share Award. Under the BAYE, participants can purchase shares in the Company ("Partnership Shares") each month using contributions from pre-tax pay, subject to an upper limit. For every seven shares purchased, the Company gifts the participant one free share ("Matching Shares").

Under the Free Shares Award shares are given to eligible employees, as a proportion of the annual base pay, subject to a maximum. Eligible employees are those with three months' service as at the grant date.

Partnership Shares can be withdrawn from the Plan Trust at any time; however, Matching Shares and Free Shares are subject to a three-year holding period, during which continuous employment within the Group is required. The Matching Shares will be forfeited if any corresponding Partnership Shares are removed from the Plan Trust within this three-year period, or if the participant leaves Ocado.

A summary of the status of the SIP as at 30 November 2014 and changes during the year is presented below:

	Partnership Shares	Matching Shares	Free Shares	Number of share awards 2014 Total
Outstanding at the beginning of the period	—	—	—	—
Granted during the period	53,410	7,283	400,258	**460,951**
Forfeited during the period	—	(94)	(17,115)	**(17,209)**
Released during the period	(696)	—	(54)	**(750)**
Sold during the period	—	—	—	—
Outstanding at the end of the period	52,714	7,189	383,089	**442,992**
Unrestricted at the end of the period	52,714	—	—	**52,714**

4.12 Share-based payments (continued)

All Partnership Shares were unrestricted as at 30 November 2014. There were no unrestricted Matching Shares or Free Shares as at 30 November 2014.

In the year, the Group recognised an expense of £0.1 million related to these awards. The expectation of meeting the holding period was taken into account when calculating this expense.

4.13 Capital management

The Board's objective is to maintain an appropriate balance of debt and equity financing to enable the Group 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 Group's net assets at the end of the period were £218.2 million (2013: £202.4 million) and it had net debt of £99.4 million (2013: £50.9 million).

The main areas of capital management revolve around working capital management and compliance with externally imposed financial covenants. In the period, the Group entered into a new unsecured three-year Revolving Credit Facility (RCF) with Barclays, HSBC, RBS and Santander. Throughout the period, the Group has complied with all covenants imposed by lenders. In addition, a key aspect of capital management was the strategic operating agreement with Morrisons, discussed in Note 5.4.

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 Group's approach to capital management during the period.

Given the Group's commitment to expand the business and the investment required to complete CFC3 and future CFCs, the declaration and payment of a dividend is not part of the short-term capital management strategy of the Group.

At the Balance sheet date, the Group's undrawn facilities and cash and cash equivalents were as follows:

	Notes	**30 November 2014 £m**	1 December 2013 £m
Total facilities available		**288.7**	173.4
Facilities drawn down†	4.2	**(175.7)**	(161.5)
Undrawn facilities at end of period		**113.0**	11.9
Cash and cash equivalents gross of drawn overdraft facility	3.9	**76.3**	110.5
		189.3	122.4

† During the prior period, the Group repaid and cancelled its £100 million credit facility. Facilities drawn down also include the leaseback of MHE relating to CFC2 to MHE JV Co. In the prior period, excluded from the amount of facilities drawn down is £0.1 million relating to capitalised transaction costs. In the current period, there are £1.1 million of capitalised transaction costs relating to the £100 million revolving credit facility entered into with Barclays, HSBC, RBS and Santander.

Section 5 — Other notes

5.1 Subsidiaries

The subsidiary undertakings of the Company are set out below. A schedule of interests in all undertakings is filed with the annual return.

	Principal activity	Proportion of share capital held	Country of incorporation
Ocado Holdings Limited	Holding company	100%	England and Wales
Ocado Retail Limited (formerly Ocado Limited)	Retail	100%	England and Wales
Ocado Information Technology Limited	Intellectual property	100%	Republic of Ireland
Ocado Polska Sp. Z.o.o	Technology	100%	Poland
Ocado Innovation Limited	Technology	100%	England and Wales
Ocado Operating Limited	Logistics and Distribution	100%	England and Wales
Ocado Central Services Limited	Business Services	100%	England and Wales
Speciality Stores Limited	Non-trading company	100%	England and Wales
Newco Beauty Limited	Non-trading company	100%	England and Wales
Jalapeno Partners Limited	Non-trading company	100%	England and Wales
Last Mile Technology Limited	Non-trading company	100%	England and Wales
Paws & Purrs Ltd	Retail	100%	England and Wales
Ocado Cell in Atlas Insurance PCC Limited	Insurance company	100%	Malta

In accordance with Section 410(2)(a) of the Companies Act, a full list of subsidiaries was annexed to the 2013 annual return and submitted to Companies House. A full list of subsidiaries will be submitted to Companies House with the 2014 annual return.

The Group has effective control over the financial and operating activities of the Ocado Cell and therefore consolidates the Ocado Cell in its financial statements in accordance with SIC 12 “Consolidation — Special Purpose Entities”. The Group uses the Ocado Cell to provide self-insurance for its vehicle fleet and public and product liability claims.

5.2 Commitments

Capital commitments

Contracts placed for future capital expenditure but not provided for in the financial statements are as follows:

	30 November 2014 £m	1 December 2013 £m
Land and buildings	**2.9**	1.0
Property, plant and equipment	**20.0**	27.8
Total capital expenditure committed at the end of the period	**22.9**	28.8

Of the total capital expenditure committed at the current period end, £7.6 million relates to CFC3, £2.5 million relates to phase 2 of CFC2 and £1.5 million relates to technology related projects. The remainder relates to CFC1 upgrades and fleet expansion.

Operating lease commitments

The Group leases a number of offices, facilities and equipment under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights.

5.2 Commitments (continued)

At 30 November 2014 the ageing profile of future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	30 November 2014 £'000	1 December 2013 £'000
Due within one year	**12.0**	10.0
Due after one year but less than five	**34.6**	32.1
Due after five years	**123.7**	115.8
Total commitment	**170.3**	157.9

5.3 Contingent liabilities

The Group has contingent liabilities in respect of legal claims arising in the ordinary course of business, all of which the Group expects will be either covered by its insurances or will not be material in the context of the Group's financial position.

5.4 Related party transactions

Key management personnel

Only the Executive and Non-Executive Directors are recognised as being key management personnel. It is the Board which has responsibility for planning, directing and controlling the activities of the Group. The key management compensation is as follows:

	52 weeks ended 30 November 2014 £m	52 weeks ended 1 December 2013 £m
Salaries and other short-term employee benefits	**3.0**	3.8
Salaries and other short-term employee benefits in respect of Directors retired during the year	**0.2**	—
Share-based payments	**3.7**	1.9
	6.9	5.7

Further information on the remuneration of Directors and Directors' interests in ordinary shares of the Company are disclosed in the Directors' remuneration report on pages 91 to 129.

Other related party transactions with key management personnel made during the period related to the purchase of professional services and amounted to £15,000 (2013: £11,000). All transactions were on an arm's length basis and no period end balances arose as a result of these transactions.

At the end of the period, there were no amounts owed by key management personnel to the Group (2013: £27,000). The prior period amounts arose in periods before relevant directorships were obtained.

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

5.4 Related party transactions (continued)

Investment

The following transactions were carried out with Paneltex Limited, a company in which the Group holds a 25% interest. Further information on the Group's relationship with Paneltex Limited is provided in Note 3.3.

	52 weeks ended 30 November 2014 £m	52 weeks ended 1 December 2013 £m
Purchase of goods		
— Plant and machinery	**—**	0.1
— Consumables	**0.4**	0.9
	0.4	1.0

Indirect transactions, consisting of the purchase of plant and machinery through some of the Group's finance lease counterparties, were carried out with Paneltex Limited to the value of £7.2 million (2013: £4.0 million).

At period end, the Group owed Paneltex £19,000 (2013: £33,000).

Joint Venture

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

	52 weeks ended 30 November 2014 £m	52 weeks ended 1 December 2013 £m
Sale of assets to MHE JVCo	**—**	116.0
Capital contributions made to MHE JVCo	**6.5**	—
Reimbursement of supplier invoices paid on behalf of MHE JVCo	**34.9**	—
Lease of assets from MHE JVCo	**31.0**	112.1
Capital element of finance lease instalments paid to MHE JVCo	**15.7**	0.3
Interest element of finance lease instalments accrued or paid to MHE JVCo	**5.4**	1.9

During the period the Group made a capital contribution of £6.5 million to MHE JVCo and paid lease instalments (including interest) of £21.1 million to MHE JVCo. 50% of these lease instalments were recovered by the Group from Morrisons. These funds are used by MHE JVCo to finance the acquisition of CFC2 fixed assets.

Included within trade and other receivables is a balance of £3.5 million owed by MHE JVCo (2013: £12.3 million). £2.7 million of this relates to a finance lease accrual which is included within other receivables (2013: £nil).

Included within trade and other payables is a balance of £0.8 million owed to MHE JVCo (2013: £8.4 million).

Included within obligations under finance leases is a balance of £130.8 million owed to MHE JVCo (2013: £112.7 million).

No other transactions that require disclosure under IAS 24 "Related Party Disclosures" 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 Group since 30 November 2014.

THE COMPANY

Ocado Group plc
Buildings One & Two Trident Place,
Mosquito Way, Hatfield, Hertfordshire
AL10 9UL,
United Kingdom

JOINT GLOBAL COORDINATORS

Barclays Bank plc
5 The North Colonnade
Canary Wharf
London E14 4BB
United Kingdom

HSBC Bank plc
8 Canada Square
London E14 5HQ
United Kingdom

JOINT BOOKRUNNERS

Goldman Sachs International
Peterborough Court
133 Fleet Street
London EC4A 2BB
United Kingdom

The Royal Bank of Scotland plc
(**trading as NatWest Markets**)
250 Bishopsgate
London EC2M 4AA
United Kingdom

Coöperatieve Rabobank U.A.
Croeselaan 18
3521 CB Utrecht
The Netherlands

LEGAL ADVISORS

To the Issuer as to U.S. federal and New York law:

Davis Polk & Wardwell London LLP
5 Aldermanbury Square
London EC2V 7HR
United Kingdom

To the Issuer as to English law:

Slaughter and May
One Bunhill Row
London EC1Y 8YY
United Kingdom

To the Initial Purchasers as to U.S. federal, New York and English law:

Allen & Overy LLP
One Bishops Square
London E1 6AD
United Kingdom

FORMER INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM OF THE COMPANY

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
10 Bricket Road
St Albans
Hertfordshire AL1 3JX
United Kingdom

CURRENT INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM OF THE COMPANY

Effective 3 May 2017
Deloitte LLP
Statutory Auditors
2 New Street Square
London
EC4A 3BZ
United Kingdom

LISTING AGENT

Arthur Cox Listing Services Limited
Ten Earlsfort Terrace
Dublin 2
Ireland

Ocado Group plc

£250,000,000 4.00% Senior Secured Notes due 2024

Joint Global Coordinators

Barclays **HSBC**

Joint Bookrunners

Goldman Sachs International **NatWest Markets** **Rabobank**

19 June 2017

OFFERING MEMORANDUM

Ocado Group plc £250,000,000 4.00% Senior Secured Notes due 2024