

19. Directors' Report

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This Directors' Report should be read in conjunction with the Strategic Report.”



Read more about the Statement of Directors' Responsibilities on pages 76 and 77



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Introduction

This section of this Annual Report is a Directors' Report required by the Companies Act to be prepared by the Directors for the Company and the Group.

Index of Directors' Report Disclosures

This Directors' Report should be read in conjunction with the Strategic Report (pages 8 to 47) which includes the Corporate Responsibility

Report (pages 42 to 45), and the Statement of Corporate Governance (defined in the index below as the “CG Statement”) (pages 54 to 62), which are incorporated by reference into this Directors' Report.

The information required to be disclosed in the Directors' Report can be found in this Annual Report on the pages listed below. Pursuant to Listing Rule 9.8.4C, the information required to be disclosed in the Annual Report under Listing Rule 9.8.4R is marked with an asterisk (*).

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The Strategic Report

The Directors are required under the Companies Act to prepare a strategic report for the Company and the Group. The Strategic Report contains the Directors' explanation of the basis on which the Group preserves and creates value over the longer term and the strategy for delivering the objectives of the Group. The Companies Act requires that the Strategic Report must:

- contain a fair review of the Group's business and contain a description of the principal risks and uncertainties facing the Group; and
- be a balanced and comprehensive analysis of the development and performance of the Group's business during the financial year and the position of the Group's business at the end of that year, consistent with the size and complexity of the business.

The information that fulfils the strategic report requirements is set out in the Strategic Report on pages 8 to 47.

The Company has chosen to include some of the information required to be disclosed in the Directors' Report within the Strategic Report (pages 8 to 47), as noted above. Certain matters, including those of sufficient importance, that would otherwise be required to be disclosed in the Directors' Report, have been set out in the Strategic Report and Statement of Corporate Governance, as noted in the index on page 70.

The Strategic Report and the Directors' Report (or parts thereof), together with sections of this Annual Report incorporated by reference, are the "Management Report" for the purposes of the Disclosure and Transparency Rule 4.1.8.

The Strategic Report and the Directors' Report, together with the sections of this Annual Report incorporated by reference, have been drawn up and presented in accordance with and in reliance upon applicable English company law and the liabilities of the Directors in connection with that report shall be subject to the limitations and restrictions provided by such law.

For an explanation of how the Board satisfies itself that this Annual Report meets the disclosure requirements refer to the Statement of Corporate Governance on pages 54 to 62 and the Directors' responsibility statement on page 76.

Amendment of the Articles

The Company's Articles, which govern a number of constitutional aspects of the Company's management, may be amended by a special resolution of its shareholders.

Appointment and Replacement of Directors

The appointment and replacement of Directors of the Company is governed by the Articles.

Appointment of Directors: A Director may be appointed by the Company by ordinary resolution of the shareholders or by the Board. The Board or any committee authorised by the Board may from time to time appoint one or more Directors to hold any employment or executive office for such period and on such terms as they may determine and may also revoke or terminate any such appointment. A Director appointed by the Board holds office only until the next annual general meeting of the Company and is then eligible for re-appointment.

Retirement of Directors: At every annual general meeting of the Company, each Director shall retire from office and may offer himself for re-appointment by the members.

Removal of Directors by Special Resolution: The Company may by special resolution remove any Director before the expiration of his period of office.

Vacation of Office: The office of a Director shall be vacated if: (i) he resigns; (ii) his resignation is requested by all of the other Directors (not less than three in number); (iii) he is or has been suffering from mental or physical ill health and the Board resolves that his office be vacated; (iv) he is absent without the permission of the Board from meetings of the Board (whether or not an alternate Director appointed by him attends) for six consecutive months and the Board resolves that his office is vacated; (v) he becomes bankrupt; (vi) he is prohibited by law from being a Director; (vii) he ceases to be a Director by virtue of the Companies Act; or (viii) he is removed from office pursuant to the Articles.

For a description of any changes of the Company's Directors during the period see the Statement of Corporate Governance on pages 54 to 62.

19. Directors' Report (continued)

Directors' Insurance and Indemnities

The Company maintains directors' and officers' liability insurance cover for its Directors and officers as permitted under the Articles and the Companies Act. Such insurance policies were renewed during the period and remain in force as at the date of this Annual Report. The Company also agrees to indemnify the Directors under an indemnity deed with each Director which contains provisions that are permitted by the director liability provisions of the Companies Act and the Articles. An indemnity deed is usually entered into by a Director at the time of his or her appointment to the Board.

Share Capital

The Company's authorised and issued ordinary share capital as at 29 November 2015 comprised a single class of ordinary shares. The shares have a nominal value of 2 pence each. The ISIN of the shares is GB00B3MBS747.

As at 20 January 2016, being the latest practicable date prior to publication of this report, the Company's issued share capital consisted of 625,456,843 issued ordinary shares, compared with 621,005,986 issued ordinary shares per the 2014 annual report. Details of movements in the Company's issued share capital can be found in Note 4.9 to the consolidated financial statements. During the period, shares in the Company were issued to satisfy options and awards under the Company's share and incentive schemes, as set out in Note 4.10 to the consolidated financial statements.

Rights Attaching to Shares

The Company's shares when issued are credited as fully paid and free from all liens, equities, charges, encumbrances and other interests. All shares have the same rights (including voting and dividend rights and rights on a return of capital) and restrictions as set out in the Articles, described below.

Except in relation to dividends which have been declared and rights on a liquidation of the Company, the shareholders have no rights to share in the profits of the Company.

The Company's shares are not redeemable. However, the Company may purchase or contract to purchase any of the shares on or off-market, subject to the Companies Act and the requirements of the Listing Rules, as described below.

No shareholder holds shares in the Company which carry special rights with regard to control of the Company. There are no shares relating to an employee share scheme which have rights with regard to control of the Company that are not exercisable directly and solely by the employees, other than in the case of the JSOS, where share interests can be transferred to a spouse, civil partner or lineal descendant of a participant in the JSOS or certain trusts under the rules of the JSOS (as noted below).

Voting Rights

Each ordinary share carries one right to vote at a general meeting of the Company. At any general meeting, a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is demanded. On a show of hands, every member who is present in person or by proxy at a general meeting of the Company shall have one vote. On a poll, every member who is present in person or by proxy shall have one vote for every share of which they are a holder. The Articles provide a deadline for submission of proxy forms of not less than 48 hours before the time appointed for the holding of the meeting or adjourned meeting. No shareholder shall be entitled to vote in respect of a share held by him if any call or sum then payable by him in respect of such share remains unpaid or if a member has been served a restriction notice, described below.

JSOS Voting Rights: Of the issued ordinary shares, 34,770,981 (2014: 34,810,561) are held by Greenwood Nominees Limited on behalf of Appleby Trust (Jersey) Limited, the independent company which is the trustee of Ocado's employee benefit trust (the "EBT Trustee"). The EBT Trustee has waived its right to exercise its voting rights in respect of these 34,770,981 ordinary shares, although it may at the request of a participant vote in respect of 33,240,664 ordinary shares which have vested under the JSOS and remain in the trust at period end. The total of 34,770,981 ordinary shares held by the EBT Trustee are treated as treasury shares in the Group's consolidated balance sheet in accordance with IAS 32 "Financial Instruments: Presentation". As such, calculations of earnings per share for Ocado exclude the 34,770,981 ordinary shares held by the EBT Trustee. Note 4.9(a) to the consolidated financial statements provides more information on the Group's accounting treatment of treasury shares.

Restrictions on Transfer of Securities

The Company's shares are freely transferable, save as set out below.

The transferor of a share is deemed to remain the holder until the transferee's name is entered in the register. The Board can decline to register any transfer of any share which is not a fully paid share. The Company does not currently have any partially paid shares. The Board may also decline to register a transfer of a certificated share unless the instrument of transfer: (A) is duly stamped or certified or otherwise shown to be exempt from stamp duty and is accompanied by the relevant share certificate; (B) is in respect of only one class of share; and (C) if to joint transferees, is in favour of not more than four such transferees. Registration of a transfer of an uncertificated share may be refused in the circumstances set out in the uncertificated securities rules (as defined in the Articles) and where, in the case of a transfer to joint holders, the number of joint holders to whom the uncertificated share is to be transferred exceeds four.

Restriction on Transfer of JSOS Interests: Participants' interests under the JSOS are generally non-transferable during the period beginning on acquisition of the interest and ending at the expiry of the relevant restricted period as set out in the JSOS rules. However, interests can be transferred to a spouse, civil partner or lineal descendant of a participant; a trust under which no person other than the participant or their spouse, civil partner or lineal descendant has a vested beneficial interest; or any other person approved by the EBT Trustee. If a participant purports to transfer, assign or charge his interest other than as set out above, the EBT Trustee may acquire the participant's interest for a total price of £1.

Other than as described above, the Company is not aware of any agreements existing at the end of the period between holders of securities that may result in restrictions on the transfer of securities or that may result in restrictions on voting rights.

Powers for the Company to Buy Back its Shares

The Company was authorised by shareholders on 15 May 2015, at the annual general meeting, to purchase in the market up to 10% of its issued ordinary shares (excluding any treasury shares), subject to certain conditions laid out in the authorising resolution. This standard authority is renewable annually; the Directors will seek to renew this authority at the AGM. The Directors did not exercise their authority to buy back any shares during the period.

Powers for the Company to Issue its Shares

The Directors were granted authority at the previous annual general meeting on 15 May 2015, to allot shares in the Company: (A) up to one-third of the issued share capital; and (B) comprising equity securities up to two-thirds of the issued share capital but after deducting any allotments or grants made under (A) above in connection with an offer by way of a rights issue. These authorities apply until the end of the AGM (or, if earlier, until the close of business on 15 August 2016). During the period, the Directors did not use their power to issue shares under the authorities provided by the shareholder resolution passed on 15 May 2015, but did satisfy options and awards under the Company's option and incentive schemes.

Following shareholder dissent to the Company's share allotment resolution at the 2015 annual general meeting, the Company will, at the AGM, seek a modified share allotment authority under two separate resolutions. The first resolution will seek authority to allot shares up to one-third of the Company's issued share capital and the second resolution will seek authority to allot shares up to two-thirds of the Company's issued share capital in connection with a rights issue only and subject to allotments or grants made under the first resolution. The substance of each allotment resolution will remain the same as at the 2015 annual general meeting and is in line with the Investment Association guidelines (formerly guidance issued by the Association of British Insurers) on the allotment of shares. However, by proposing two separate resolutions, shareholders will now be able to more clearly express their views on the constituent elements of the previous, single allotment resolution. The Directors have no present intention to exercise the authorities sought under either resolution, but the Directors wish to ensure that the Company has maximum flexibility in managing the Company's capital resources. However, if they do exercise the authorities, the Directors intend to follow the Investment Association guidelines concerning its use.

Accordingly, at the AGM, shareholders will be asked to grant an authority to allot shares in the Company under two resolutions: resolution 1: up to one-third of the Company's issued share capital; and resolution 2: comprising equity securities up to two-thirds of the Company's issued share capital but after deducting any allotments or grants made under resolution 1 in connection with an offer by way of a rights issue. These authorities will apply until the end of the next annual general meeting or until the close of business on 4 August 2017.

The Directors were granted authority at the previous annual general meeting on 15 May 2015, to disapply pre-emption rights. It would give the Directors the authority to allot ordinary shares for cash without first offering them to existing shareholders in proportion to their existing shareholdings. This authority applies until the end of the AGM (or, if earlier, until the close of business on 15 August 2016). During the period, the Directors did not use their power to issue shares under this authority.

A new special resolution will be proposed at the AGM to renew the Directors' powers to disapply pre-emption rights. The new resolution, which follows the Pre-emption Group's revised Statement of Principles on disapplying pre-emption rights (the "PEG Principles"), will seek an authority to disapply pre-emption rights over 10% of the Company's issued ordinary share capital (not 5%, as previously). The Directors intend to only allot shares representing more than 5% of the issued ordinary share capital of the Company under this authority, where that allotment is in connection with an acquisition or specified capital investment (within the meaning given in the PEG Principles) which is announced contemporaneously with the allotment, or which has taken place in the preceding six-month period and is disclosed in the announcement of the allotment. The Directors intend to follow the PEG Principles regarding cumulative usage of authorities within a rolling 3-year period where the principles provide that usage in excess of 7.5% of issued ordinary share capital of the Company (excluding treasury shares) should not take place without prior consultation with shareholders, except in connection with an acquisition or specified capital investment as referred to above. The power will expire at the earlier of 4 August 2017 and the conclusion of the annual general meeting of the Company held in 2017.

19. Directors' Report (continued)

Significant Shareholders

During the period the Company has received notifications, 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, as set out in the table below:

	Number of Ordinary Shares/Voting Rights	Percentage of Issued Share Capital	Nature of Holding
The London & Amsterdam Trust Company Limited	81,804,512	13.08	Direct/Indirect
Capital Group Companies Inc	61,938,208	9.91	Indirect
Morgan Stanley (Institutional Securities Group and Global Wealth Management)	34,668,871	5.88	Direct & QFI
Norges Bank	26,532,851	4.50	Direct & QFI

These figures represent the number of shares and percentage held as at the date of notification to the Company.

No changes have been disclosed in accordance with Disclosure and Transparency Rule 5.1.2R in the period between 30 November 2015 and 20 January 2016 (being not more than one month prior to the date of the Notice of Meeting), except as set out in the table below:

	Number of Ordinary Shares/Voting Rights	Percentage of Issued Share Capital	Nature of Holding
Morgan Stanley (Institutional Securities Group and Global Wealth Management)	56,491,313	9.57	Direct & QFI
The Goldman Sachs Group, Inc	25,008,723	3.99	Indirect & QFI
Deutsche Bank AG	31,320,431	5.31	Direct & QFI

These figures represent the number of shares and percentage held as at the date of notification to the Company.

Significant Related Party Agreements

There were no contracts of significance during the period between the Company or any Group company and either (1) a Director of the Company or (2) a controlling shareholder of the Company.

Change of Control

The Company does not have any agreements with any Director or employee that would provide compensation for loss of office or employment resulting from a takeover bid except that it should be noted that: (i) provisions of the Company's share schemes may cause options and shares granted to employees under such schemes to vest on a takeover; and (ii) certain members of senior management (not including the Directors) who were employed prior to 2010 are entitled to a payment contingent on a change of control of the Company or merger of the Company (irrespective of loss of employment) as set out in his or her respective employment contract. For further information on the change of control provisions in the Company's share schemes refer to the Directors' Remuneration Report on pages 80 to 117.



Significant Agreements

There are a number of agreements to which the Group is a party that take effect, alter or terminate upon a change of control of the Company following a takeover bid. Details of the significant agreements are summarised below.

Morrisons Operating agreement: If certain competitors of Morrisons acquire more than 50% of the voting rights in the Company's shares or take control of the composition of the Company's Board, or acquire all or substantially all of the Group's business and undertakings, then Morrisons will be entitled to give notice to terminate the operating agreement (a "Termination Event").

If such a Termination Event occurs prior to the date on which capital is intended to be expended on an agreed new CFC ("Capital Commitment Date"), then:

- Morrisons would be entitled to give not less than four (but not more than four and a half) years' notice to terminate and the Company's right to be the exclusive supplier of the services would fall away.
- The Company shall purchase Morrisons' shares in MHE JV Co Limited (the owner of the automation in CFC2) and may be required to repurchase CFC2.

If such a Termination Event occurs after the Capital Commitment Date, then:

- The Company would continue to be obliged to provide the services under the operating agreement, but the Company's right to be the exclusive supplier of the services would fall away and Morrisons would be released from its annual sales target.
- Further, certain of the fees payable by Morrisons would scale back to reflect Morrisons.com's actual use of the services, but would not (except if the Company had procured a third party to acquire Morrisons' capacity of all relevant CFCs) afford either party a termination right prior to the end of the term.

Sourcing Agreement with Waitrose: The Company's primary operating subsidiary, Ocado Retail Limited ("ORL"), is party to the Sourcing Agreement with Waitrose and its parent company, John Lewis. If certain competitors of Waitrose or John Lewis acquire 50% or more of the shares or control of the Company's Board, then each of ORL, Waitrose and John Lewis may terminate the Sourcing Agreement. In these circumstances, ORL is obliged to pay Waitrose the lower of £40 million and 4% of the market capitalisation of the Company. This change of control provision will cease to bind the parties if, prior to the change of control, any party has already given a valid notice of termination.

Revolving Credit Facility Agreement: The Group has an unsecured £210 million revolving credit facility with Barclays Bank PLC, HSBC Bank plc, The Royal Bank of Scotland plc and Abbey National Treasury Services plc (Santander) for general corporate and working capital purposes. If there is a change of control of the Company, and agreeable terms cannot be negotiated between the parties within 30 days from the date of the change of control, any lender may cancel their commitment under the facility and all outstanding utilisations for that lender, together with accrued interest, shall be immediately payable.



19. Directors' Report (continued)

Research and Development Activities

The Group has dedicated in-house software, logistics and engineering design and development teams with primary focus on IT and improvements to the customer interfaces, the CFCs and the automation equipment used in them. Costs relating to the development of computer software are capitalised if it is probable that the future economic benefits that are attributable to the asset will accrue to the entity and the costs can be measured reliably. The Company is carrying out a number of IT and engineering design and build projects with the intention of developing new and improved automation equipment and processes for its warehouses. Further information is contained in the Strategic Report on pages 8 to 47.

Future Developments of the Business

The Group's likely future developments including its strategy are described in the Strategic Report on pages 8 to 47.

Employees with disabilities

Applications for employment by people with disability are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned and our ability to make reasonable adjustments to the role and the work environment. In the event of existing employees becoming disabled all reasonable effort is made to ensure that their employment within the Group continues. Training, career development and promotion of a disabled person is, as far as possible, identical to that of an able bodied person.

Profit and Dividends

The Group's results for the period are set out in the consolidated income statement on page 127. The Group's profit before tax for the period amounted to £11.9 million (2014: £7.2 million).

The Directors do not propose to pay a dividend for the period (2014: nil).

Post-Balance Sheet Events

There have been no material events after the balance sheet date of 29 November 2015 to the date of this Annual Report.

Independent Auditors

The Company's auditors, PwC, have indicated their willingness to continue their role as the Company's auditors. Resolutions concerning the re-appointment of PwC as auditors of the Company and to authorise the Directors to determine their remuneration will be proposed at the AGM and set out in the Notice of Meeting. For further information on the re-appointment of the auditors, refer to page 66 of the Statement of Corporate Governance.

Disclosure of Information to Auditors

In accordance with the Companies Act, each Director who held office at the date of the approval of this Directors' Report (whose names and functions are listed in the Board of Directors section on pages 50 and 51 of this Annual Report) confirms that, so far as he or she is aware, there is no relevant audit information of which the Group's auditors are unaware, and that each Director has taken all of the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Statement of Directors' Responsibilities

The Directors are responsible for preparing this Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and parent company financial statements in accordance with International Financial Reporting Standards (the "IFRSs") as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the result of the Company and the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the Group's corporate website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that this Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Each of the Directors who held office at the date of the approval of this Annual Report (whose names and functions are listed on pages 50 and 51 of this Annual Report) confirms, to the best of his or her knowledge, that:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group; and
- the "Management Report" (as defined in the Directors' Report on page 71) includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Forward-Looking Statements

Certain statements made in this Annual Report are forward-looking statements. Such statements are based on current expectations and assumptions and are subject to a number of risks and uncertainties that could cause actual events or results to differ materially from any expected future events or results expressed or implied in these forward-looking statements. They appear in a number of places throughout this Annual Report and include statements regarding the intentions, beliefs or current expectations of the Directors concerning, amongst other things, the Group's results of operations, financial condition, liquidity, prospects, growth, strategies and the business. Persons receiving this report should not place undue reliance on forward-looking statements. Unless otherwise required by applicable law, regulation or accounting standard, the Group does not undertake to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise.

The Directors' Report is approved by the Board and signed on its behalf by

Neill Abrams

Group General Counsel and
Company Secretary

Ocado Group plc
Registered in England and Wales
Number 07098618
2 February 2016

