OCADO LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE 52 WEEKS ENDED 2ND DECEMBER 2007

ocado

Company Registration No 3875000 (England and Wales)

Directors	Michael Grade* (Chairman) T Steiner N Abrams T Clayton* J Faiman J Frampton* J Gissing R Gorrie* J Rausing* D Young* A Mckay* B Lynas* * denotes Non-Executive Director
Secretary	N Abrams
Company Number	3875000
Registered Office	Titan Court 3 Bishops Square Hatfield Herts AL10 9NE
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Registered Auditors 10 Bricket Road St Albans Hertfordshire AL1 3JX

CHAIRMAN'S REVIEW **OCADO LIMITED**
FOR THE 52 WEEKS ENDED 2ND DECEMBER 2007

In my first review to you as Chairman I am delighted to report that in the final weeks of 2007 Ocado moved into profit at an EBITDA (Earnings before Interest, Taxation, Depreciation and Amortisation) level Achieving this milestone is a major step in the progress of your company towards full profitability and tangible evidence of the viability of our chosen business model It has taken perhaps longer than anticipated at the outset but we have now demonstrated that we can generate positive cashflow from our operations and this is thanks to a lot of hard work by the executive team and to the vision and longstanding support of Ocado's shareholders We remain unique in the value proposition we provide to customers - offering a market-leading service, supplying the highest quality own-label products, and now, each week, matching prices of household branded goods to those of largest supermarket operator in the UK First class customer service, keen pricing and operating profitability are excellent foundations for long-term business success

The UK grocery market is estimated to be worth £120billion annually, of which internet sales still represent only £2 5billion The Institute of Grocery Distribution (IGD) has recently predicted that by 2012, 60% of all shoppers will use the internet for food shopping of which 11% of shoppers will exclusively use the internet to shop online for groceries As such we see tremendous growth potential over the coming years We now make a significant operating contribution on every single order We have an unmatched customer proposition and a scalable business model Our fixed costs are tightly controlled and this means that future sales growth will deliver rapid increase in EBITDA and thus our progress to full profitability

In 2007 Ocado achieved sales growth of 25% to £288 1m on a like-for-like basis This growth was a combination of an increase in the number of orders and growth in the average order size The EBITDA loss for the financial year halved to £11 6m The EBIT (Earnings before Interest and Taxation) loss reduced to £31 4m, down only 16 7% due to higher depreciation charges as a result of continuing capital investment

In March 2007 Ocado raised £30m in equity from new and existing investors, and in the following quarter £25m in new debt to finance the continued expansion We maintain a strong relationship with our key investors who remain supportive of the business ambitions and progress to date I would like to thank the Company's shareholders for their ongoing support

In 2007 Ocado launched its first television advertising campaign which was successful in increasing awareness of the Ocado brand This complemented our continued effective use of direct mail marketing which is targeted at those most likely to use the Ocado service and has response rates which are significantly above industry averages

Many of the improvements in the operational performance of Ocado are not evident in the financial performance of 2007 but will deliver savings in future years Our target is to deliver to the customer precisely what they ordered at the time they requested it We continue to make significant improvements to what were already industry-leading metrics in this area We have halved the number of product substitutions in customer orders and our fulfilment of orders in our warehouse is now 99 9% accurate

In 2008 Ocado continues to enhance our customer proposition by further improving on the quality of what we deliver combined with matching the prices of branded goods with the price leader in our sector We have achieved a world first by using our technology to display individual product life information at the point of sale, we have expanded our product range by 15% and we have moved into new product ranges such as magazines and flowers

Ocado is determined to minimise its environmental impact We have one of the lowest waste levels of any supermarket in the world The efficiencies of our logistics operation mean that the core business proposition of delivering groceries to the customer's kitchen has a lower carbon footprint than the alternative of the local supermarket, even if you walk there We are now collecting and recycling our used carrier bags into new bags and constantly seeking new ways to reduce overall emissions These achievements have been recognised by winning the Large Retailer category of the Online Retail Green Awards 2008

I would like to thank all of our 3,000 strong staff for their dedication to enable us to provide leading customer service and products to customers - without such a committed team, Ocado could not continue to prosper as pioneers in the online grocery sector, creating such a positive online experience I would also like to thank all Ocado customers and suppliers who have given the business the opportunity to rise to the challenge of being more demanding

Michael Grade

The directors present their report and audited financial statements of the Company for the 52 weeks ended 2nd December 2007

Principal activities
The principal activity of the Company is that of food retail and delivery The Company operates a customer fulfilment centre in the United Kingdom with the capacity to serve households in London, the South East, the Midlands and the North West

Review of the business and future developments
The Company continues its strategy of developing a nationwide online grocery service operated from dedicated warehouses throughout the United Kingdom

The directors are pleased with the progress that has been made so far in developing the logistics and customer base The Company currently provides the service to over 50% of UK households, operating in London, the South East, the South Coast, the Midlands and the North West The Company intends to continue the rollout of its service to other parts of the United Kingdom

This business has required large upfront capital expenditure to achieve a scale at which it can be profitable on an EBITDA basis This has now been achieved during the first part of 2008 Further capital investment in similar equipment at the existing site is required to increase the capacity and grow the profitability of the business in the next few years so that the Company also becomes profitable on an EBIT and EBT basis During the year the Company raised £55m in loan and equity funding from existing and new shareholders and lenders, further details are given in Notes 17 and 18

Given the straightforward nature of the business, the Company's directors are of the opinion that analysis using Key Performance Indicators (KPIs) is not necessary for an understanding of the development, performance or position of the business

Principal risks and uncertainties
The management of the business and execution of the Company's strategy are subject to a number of risks, principally competition from both national and local retailers, continued product availability, retention of key employees and maintenance of IT capabilities These risks are actively managed through the implementation of appropriate policies and procedures

Results and dividends
The Company made a loss for the 52 weeks ended 2nd December 2007 of £39 7m (2006 restated - £44 2m) incurring operating losses of £31 4m (2006 restated - £37 6m loss) The net cash outflow from operating activities was £20 9m (2006 - £16 4m outflow) The detailed results are set out in the Profit and Loss Account on page 6 The directors do not propose to pay a dividend for the financial year (2006 - £nil)

Employee involvement
The Company is committed to involving employees in its activities and considers that a loyal and skilled workforce is essential to the future of its business It recognises that employees should be kept informed of the progress of their business and of the Company as a whole, and regular corporate briefing sessions are held The Company aims to take into account views of employees when significant decisions are made that are likely to affect their interests

Disabled employees
The Company is committed to the principle of equal opportunities for all It is the policy of the Company that applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned In the event of employees becoming disabled all reasonable effort is made to ensure that their employment within the Company continues It is the policy of the Company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of an able bodied person

Charitable and political contributions
The Company made donations for charitable purposes during the financial year, which amounted to £3,000 (2006 - £5,000) No political donations were made Employees of the Company raised £8,000 during the financial year for the NSPCC which is the Company's nominated charity

Creditor payment policy

It is the Company's policy in respect of all suppliers to agree payment terms in advance of the supply of goods and to adhere to those payment terms The Company's average creditor payment period at 2nd December 2007 was 23 days (2006 – 41 days)

Directors

The directors who have held office during the financial year or have been appointed subsequent to the financial year end are as shown on the Company Information page

Directors' interests

The directors' beneficial interests in the Ordinary shares of the Company at the beginning and end of the financial year or date of appointment are as stated below

Share Options

	Date of issue	No of Options at 3 December 2006	No of Options at 2 December 2007	Exercise Price (£)	Exercise Period
N Abrams	May-02	1,750	1,750	100	07/02/05 – 06/02/12
	May-02	1,750	1,750	150	07/02/05 – 06/02/12
	Nov-03	1,000	1,000	90	30/11/06 – 29/11/13
	May-05	1,000	1,000	115	16/05/08 – 15/05/15
J Faiman	May-05	2,000	2,000	115	16/05/08 – 15/05/15
J Gissing	May-05	2,000	2,000	115	16/05/08 – 15/05/15
R Gorrie	May-02	1,750	1,750	100	07/02/05 – 06/02/12
	May-02	1,750	1,750	150	07/02/05 – 06/02/12
	Nov-03	1,000	1,000	90	30/11/06 – 29/11/13
T Steiner	May-05	2,000	2,000	115	16/05/08 – 15/05/15
T Clayton	Feb-02	943	943	53	07/02/04 – 06/02/12

No other directors have options in the Company There are no performance criteria attached to these options The number and exercise price for any options granted to directors is set by the Remuneration Committee

No Directors have exercised any options during the financial year nor have there been any lapses

Shares

	Ordinary Shares of 1p each		Convertible Preference Shares of 1p each	
	2 December 2007	3 December 2006	2 December 2007	3 December 2006
N Abrams	4,356	4,356	-	-
J Faiman	304,376	304,376	-	-
J Frampton	2,517	2,517	50	50
J Gissing	96,576	96,576	-	-
R Gorrie	13,529	13,529	-	-
T Steiner	143,964	143,964	-	-
M Grade	667	-	-	-

No other directors have an interest in the Ordinary or Convertible Preference shares of the Company

Directors' interests (continued)
In addition to the above, four separate trusts hold 160,412 (2006 - 160,412), 106,946 (2006 - 106,946), 68,763 (2006 - 68,763) and 12,008 (2006 - 12,008) Ordinary shares in the Company Messrs Steiner, Gissing, Rausing and Abrams respectively are discretionary beneficiaries of these trusts One trust holds 328,724 (2006 - 328,724) Convertible Preference shares Mr Rausing is a discretionary beneficiary of this trust

Independent Auditors
PricewaterhouseCoopers LLP are the auditors for the 52 weeks ended 2nd December 2007 and have indicated their willingness to continue in office A resolution to re-appoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting

Statement of directors' responsibilities
Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business

The directors confirm that suitable accounting policies have been used and applied consistently in the period with the exception of the changes arising with adoption of the new accounting standards in the period as described in Note 1 of the financial statements They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the 52 weeks ended 2nd December 2007 and that applicable accounting standards have been followed

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Each person who is a director at the date of approval of this report confirms that so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information This confirmation is given and should be interpreted in accordance with the provisions of Section 234ZA of the Companies Act 1985

On behalf of the Board

T Steiner
Director

15 August 2008

We have audited the financial statements of Ocado Limited for the 52 weeks ended 2nd December 2007 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes These financial statements have been prepared under the accounting policies set out therein

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose We do not, in giving this opinion, 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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Opinion
In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 2nd December 2007 and of its loss and cash flows for the 52 weeks then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

Emphasis of Matter - Going Concern
In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in Note 1 1 to the financial statements concerning the uncertainty of the Company's future funding This condition indicates the existence of a material uncertainty which may cast doubt on the Company's ability to continue as a going concern so we consider it should be brought to your attention The financial statements do not include any adjustments that would result if the Company was unable to continue as a going concern

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
St Albans

15 August 2008

PROFIT AND LOSS ACCOUNT
FOR THE 52 WEEKS ENDED 2ND DECEMBER 2007

OCADO LIMITED

	Notes	52 Weeks ended 2 December 2007 £000s	53 Weeks ended 3 December 2006 Restated * £000s
Turnover (inclusive of VAT)		288,098	230,178
VAT		(15,242)	(12,447)
Turnover	2	272,856	217,731
Cost of sales		(279,829)	(231,736)
Gross loss		(6,973)	(14,005)
Administrative expenses		(26,259)	(25,386)
Other operating income	3	1,873	1,749
Operating loss	3	(31,359)	(37,642)
Interest receivable and similar income	9	824	596
Interest payable and similar charges	9	(9,191)	(7,178)
Loss on ordinary activities before taxation		(39,726)	(44,224)
Tax on loss on ordinary activities	10	-	-
Loss on ordinary activities after taxation and retained loss for the financial year	20	(39,726)	(44,224)
Earnings before interest, taxation, depreciation and amortisation	4	(11,555)	(22,673)

There is no difference between the loss on ordinary activities before taxation and the retained loss for the financial year stated above and their historical cost equivalents

The notes on pages 10 to 24 form part of these financial statements

All operations are continuing

* Prior year comparatives have been restated for the adoption of FRS20 and FRS25 refer to Note 1

	Notes	52 Weeks ended 2 December 2007 £000s	53 Weeks ended 3 December 2006 Restated * £000s
Loss for the financial year		(39,726)	(44,224)
Total recognised gains and losses relating to the financial year		(39,726)	(44,224)
Prior year adjustment (FRS20 and FRS25)	1	(3,472)	
Total gains and losses recognised since last financial statements		(43,198)	

* Prior year comparatives have been restated for the adoption of FRS20 and FRS25 refer to Note 1

BALANCE SHEET **OCADO LIMITED**

AS AT 2ND DECEMBER 2007

	Notes	2007 £000s	2006 Restated* £000s
Fixed Assets			
Tangible assets	11	84,377	78,391
Fixed asset investments	12	395	395
		84,772	78,786
Current Assets			
Stock	13	8,300	7,178
Debtors	14	9,458	11,209
Cash at bank and in hand		11,286	11,521
		29,044	29,908
Creditors: amounts falling due within one year	15	(40,031)	(56,203)
Net current liabilities		(10,987)	(26,295)
Total assets less current liabilities		73,785	52,491
Creditors: amounts falling due after more than one year	16,17	(82,813)	(54,344)
Creditors: Convertible Loans falling due after more than one year	16,17	(33,424)	(31,268)
Net Liabilities		(42,452)	(33,121)
Capital and reserves			
Called up share capital	18	34	32
Share premium account	20	241,109	210,897
Profit and loss account	20	(290,477)	(250,932)
Other Reserve	20	6,882	6,882
Total Equity Shareholders' deficit	19	(42,452)	(33,121)

The financial statements on pages 6 to 24 were approved by the Board on 15 August 2008 and signed on its behalf by

T Steiner
Director

* Prior year comparatives have been restated for the adoption of FRS20 and FRS25 refer to Note 1

	Notes	52 Weeks ended 3 December 2007 £000s	53 Weeks ended 3 December 2006 £000s
Net cash outflow from operating activities	5	(20,923)	(16,419)
Returns on investments and servicing of finance	21	(7,134)	(4,225)
Capital expenditure	21	(10,491)	(17,601)
Cash outflow before financing		(38,548)	(38,245)
Financing	21	38,434	50,345
(Decrease)/Increase in net cash	6	(114)	12,100

Reconciliation of net cash flow to movements in net debt

	Notes	52 Weeks ended 3 December 2007 £000s	53 Weeks ended 3 December 2006 Restated* £000s
Increase/(Decrease) in net cash	6	(114)	12,100
(Increase)/Decrease in borrowings	6	(8,220)	10,123
Non-cash changes	6	(15,299)	(16,459)
Change in net debt		(23,633)	5,764
Net debt brought forward	6	(86,515)	(92,279)
Net debt carried forward	6	(110,148)	(86,515)

1. Accounting policies

1.1. Basis of preparation

The directors believe that, based on its current forecasts and plans for raising new equity, the Company will meet the current and envisaged financial covenants within its existing banking arrangements These forecasts assume that the Company continues to grow However, in the event that these forecasts and hence covenants are not met the directors are confident that, if necessary, the existing banking arrangements could be renegotiated and/or additional funding could be raised from either existing or new investors

Whilst there can be no certainty about the outcome of the matters described above, based on the foregoing, the directors consider that it is appropriate to prepare these financial statements on the going concern basis under the historical cost convention and the accounting policies set out below, and in accordance with the Companies Act 1985 and applicable United Kingdom accounting standards

The following accounting policies have been consistently applied except as described in Note 1 2 "Changes in accounting policy and presentation of financial performance"

1.2. Changes in accounting policy and presentation of financial performance

a) FRS 20 Share-based payments

During the 52 weeks ended 2nd December 2007 the Company adopted the provisions of FRS20 "Share-based payments" The adoption of this standard represents a change in accounting policy and the comparative figures have been restated accordingly

This change of accounting policy has resulted in an increase in the loss on ordinary activities before taxation of £181,000 (2006 - £147,000) (see Note 19) and recognise a credit in reserves of an equal amount This change has not resulted in any increase or decrease in net liabilities

The Company's accounting policy relating to Share-based payments is detailed in Note 1 10

b) Earnings before Interest, Taxation, Depreciation and Amortisation

During the 52 weeks ended 2nd December 2007 the Company introduced the Earnings before Interest, Taxation, Depreciation and Amortisation ('EBITDA') measure on to the face of the Profit and Loss Account with a comparative

The Company believes the disclosure of this measure improves the value of the reporting by presenting a measure that is commonly used by investors.

The calculation of the Earnings before Interest, Taxation, Depreciation and Amortisation is detailed in Note 4

c) FRS25 Financial Instruments - Presentation

During the 52 weeks ended 2nd December 2007 the Company amended its accounting policy in respect of financial instruments to adopt the requirements of FRS 25 "Financial Instruments -Presentation" for compound financial instruments to be split between their liability and equity components, as detailed in Note 1 11 This standard was applicable for accounting periods beginning on or after 1st January 2005 and therefore should have been adopted by the Company in the prior year

This change of accounting policy has required comparative figures to be restated, resulting in an increase in the loss on ordinary activities before taxation of £954,000, increase in Other Reserve of £6,882,000, reduction in Non-Convertible Loans of £3,698,000 and increase in the Profit and Loss Reserve deficit of £3,184,000 In the current year the change has resulted in an increase in the loss on ordinary activities before taxation and increase in Non-Convertible Loans of £1,009,000

1.3. Turnover

Turnover consists of sales to third parties including charges for delivery where appropriate and is net of vouchers, discounts and refunds Revenue is recognised when customers take delivery of the goods

1.4. Stock

Stock comprises goods held for resale, fuel and other consumable goods Stock is valued at the lower of cost and net realisable value

1.5. Deferred taxation

Deferred taxation is accounted for on an undiscounted basis at expected tax rates at balance sheet date on all differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements A deferred tax asset is only recognised when it is more likely than not that the asset will be recoverable in the foreseeable future out of suitable taxable profits from which the underlying timing differences can be deducted

1.6. Tangible fixed assets

Tangible fixed assets are stated at historic purchase cost less accumulated depreciation Depreciation is provided at rates estimated to write off the cost or valuation of the relevant assets less their estimated residual values by equal annual amounts over their expected useful economic lives Residual values and expected useful economic lives are reassessed annually No depreciation is provided on Freehold Land Other fixed assets are depreciated based on the useful economic life indicated below

Computer Software & Hardware	2 – 5 years
Fixtures & Fittings	5 – 10 years
Plant & Machinery	3 – 20 years (90% between 5 and 10 years)
Leasehold Property	over the remaining period of the lease
Freehold Buildings	25 years
Intangible Assets	3 years

Any impairment of tangible fixed assets is charged to operating profit in the period in which it arises

Work completed by the in-house IT and Project Management teams which are an alternative to engaging external vendors and relates to the introduction or significant enhancement of capital equipment in the warehouse and other key business processes is capitalised These assets are depreciated over the same useful economic life as the related asset, normally 3 years

1.7. Fixed asset investments

Investments are stated individually at the lower of cost and their recoverable amount, which is determined as the higher of net realisable value and value in use

1.8. Leases

Computer Equipment, Plant & Machinery and Fixtures & Fittings acquired under finance leases, which are those where substantially all the risks and rewards of ownership of the assets have passed to the Company, are capitalised in the balance sheet and depreciated over the shorter of their useful economic lives and the lease terms The present value of future rentals is shown as a liability The interest element of the rental obligations is charged to the profit and loss account over the period of the lease

All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight line basis over the lease term

1.9. Pensions

The Company contributes to the personal pension plans of its staff through a defined contribution group personal pension scheme which is administered by Standard Life Employer contributions to the scheme are a percentage of salary based on length of service, contributions are charged to the profit and loss account in the period in which they arise

1.10. Share-based payments

Employees (including directors) of Ocado Limited receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for rights over shares ('equity-settled transactions')

Share-based payments (continued)

The cost of equity settled transactions with employees is measured by reference to the fair value at the date at which they are granted The fair value for HM Revenue & Customs Approved schemes is determined by the Company and confirmed by HM Revenue & Customs' Shares and Asset Valuation division In valuing equity-settled transactions, no account is taken of any performance conditions

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the years in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date') The vesting period is 3 years If the options remain unexercised after a period of 10 years from the date of grant or the employee leaves the Company, the options expire

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

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied

For details of the share options see Note 22

1.11. Financial instruments

Financial instruments, other than equity shares, are classified as liabilities if they contain an obligation to transfer economic benefits In accordance with FRS25 compound financial instruments are split between the liability and equity components at the date of issuance, based on relative fair values, with the equity component included in other reserves The finance costs in respect of financial instruments other than equity are recognised in the profit and loss account over the term of the instrument at a constant rate on the carrying amount

2. Segmental analysis of turnover, profit and net assets

The Company's activities consist solely of the retailing of food and supermarket goods within the United Kingdom

3. Operating loss

	Notes	2007 £000s	2006 Restated* £000s
Operating loss is stated after charging/(crediting)			
Depreciation of leased tangible assets	11	9,945	8,056
Depreciation of owned tangible assets	11	9,859	6,913
Employment costs	7	46,731	32,250
Other operating income		(1,873)	(1,749)
Amounts paid under operating leases – Plant & Machinery		372	525
Amounts paid under operating leases – Other and land & buildings		3,175	3,135

Other operating income comprised principally of sublet property income and income generated from the sale of promotional space on the Company's website

Depreciation charge for the financial year includes a charge of £613,000 (2006 - £477,000) in respect of Plant & Machinery written down to net realisable value

* Prior year comparatives have been restated for the adoption of FRS20 and FRS25 refer to Note 1

Operating loss (continued)

Details of auditors' remuneration are as follows

	2007 £000s	2006 £000s
Fees payable to the Company's auditor for the audit of the Company's financial statements for the 52 weeks ended 2nd December 2007	65	60
Total audit fees	65	60
Tax services	15	6
Corporate finance services	20	42
Total non-audit fees	35	48

4. Reconciliation of loss for the financial year to earnings before interest, taxation, depreciation and amortisation

	Notes	2007 £000s	2006 Restated* £000s
Loss on ordinary activities after taxation and retained loss for the year		(39,726)	(44,224)
Add back the following			
Tax on loss on ordinary activities	10	-	
Interest receivable and similar income	9	(824)	(596)
Interest payable and similar charges	9	9,191	7,178
Depreciation	11	19,804	14,969
Earnings before interest, taxation, depreciation and amortisation		(11,555)	(22,673)

5. Reconciliation of operating loss to net cashflow from operating activities

	Notes	2007 £000s	2006 Restated* £000s
Operating loss		(31,359)	(37,642)
Depreciation of tangible fixed assets	11	19,804	14,969
Share option charge	22	181	147
(Increase) in stock		(1,122)	(2,572)
(Increase)/Decrease in trade debtors		2,559	(2,869)
(Increase)/Decrease in other debtors		(808)	472
Increase/(Decrease) in trade creditors		(10,726)	7,536
Increase/(Decrease) in other creditors		548	3,540
Net cash outflow from operating activities		(20,923)	(16,419)

*Prior year comparatives have been restated for the adoption of FRS20 and FRS25 refer to Note 1

6. Analysis of changes in net debt

	As at 3 December 2006 Restated*	Cashflow	Non-Cash Changes	As at 2 December 2007
	£000s	£000s	£000s	£000s
Cash at bank and in hand	11,521	(235)	-	11,286
Overdraft	(516)	121	-	(395)
Net cash	11,005	(114)	-	10,891
Other loans due within one year	(5,626)	4,694	-	(932)
Other loans due after one year	(59,935)	(20,150)	-	(80,085)
Finance leases due within one year	(6,282)	7,236	(4,824)	(3,870)
Finance leases due after one year	(25,677)	-	(10,475)	(36,152)
Borrowings	(97,520)	(8,220)	(15,299)	(121,039)
Net debt	(86,515)	(8,334)	(15,299)	(110,148)

At year end the Company benefited from an overdraft facility of £5m (2006 - £5m) with Barclays Bank Plc

7. Employee information

Employment costs during the financial year were as follows

	2007	2006 Restated*
	£000s	£000s
Wages and salaries	42,458	28,680
Social security costs	3,477	2,895
Costs of employee share option schemes	181	147
Other pension costs	615	528
	46,731	32,250

Average no. of employees by role	**2007**	**2006**
Operational Staff	2,308	1,018
Support Staff	274	230
	2,582	1,248

At the end of March 2007 a 5 year contract for the provision of third party logistics services ended The 1,214 people employed under this contract became employees of the Company under TUPE legislation

The costs recognised above for the share option scheme relate to equity-settled schemes only (see Note 22)

* Prior year comparatives have been restated for the adoption of FRS20 and FRS25 refer to Note 1

8. Directors' emoluments

Directors	**2007 £000s**	**2006 £000s**
Aggregate emoluments	655	594
Company contributions to money purchase pension schemes	28	32

Highest Paid Director	**2007 £000s**	**2006 £000s**
Aggregate emoluments	181	178
Company contributions to money purchase pension schemes	12	12

Post retirement benefits are accruing to three directors as part of the defined contribution group personal pension scheme that is offered to all employees (2006 - 3 directors)

T Clayton and R Gorrie were paid £24,321 (2006 - £15,679) and £32,568 (2006 - £17,625) respectively in relation to professional services during the financial year

9. Interest (payable)/receivable and similar charges

	2007 £000s	**2006 Restated* £000s**
Bank interest receivable	824	596
Interest payable and similar charges		
- Other loans	(6,867)	(5,789)
- Bank interest	(64)	(206)
- Finance leases	(2,260)	(1,183)
	(9,191)	(7,178)

* Prior year comparatives have been restated for the adoption of FRS20 and FRS25 refer to Note 1

10. Taxation on loss on ordinary activities

	2007 £000s	2006 £000s
Current tax		
Total current tax	-	
Deferred tax		
Total deferred tax	-	
Total loss on ordinary activities	-	

The tax assessed for the period is higher than the standard rate of corporate taxation in the UK (30%) The differences are explained below

	2007	2006
Loss on ordinary activities before tax	(39,726)	(43,698)
Loss on ordinary activities before tax multiplied by the standard rate of Corporation Tax in the UK – 30% (2006 – 30%)	(11,918)	(13,109)
Effects of		
Expenses not deductible for tax purposes	135	294
Capital allowances less than depreciation	3,034	1,910
Tax losses	8,749	10,905
Current tax charge for the period	-	-

Based on the results for the period there is no provision for corporation tax The value of the taxation losses to date at a 28% (2006 - 30%) tax rate is £72 4m (2006 – £64 5m) with an unrecognised deferred tax asset of £84 8m (2006 - £74 4m), as detailed below

	2007 £000s	2006 £000s
Accelerated capital allowances	(12,426)	(9,881)
Timing differences	-	
Tax losses carried forward	(72,395)	(64,525)
Unrecognised deferred tax asset	(84,821)	(74,406)

The asset will only start becoming recoverable once the company becomes profitable

11. Tangible fixed assets

	Computer Software & Hardware	Land & Buildings	Plant & Machinery	Fixture & Fittings	Total
Cost	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**
At 3rd December 2006	20,629	10,904	89,233	2,048	122,814
Additions	6,035	(2)	29,619	278	35,930
Disposals	-	-	(12,176)	-	(12,176)
Reclassifications	(1)	-	51	(50)	-
At 2nd December 2007	26,663	10,902	106,727	2,276	146,568
Accumulated Depreciation					
At 3rd December 2006	13,184	1,853	28,620	766	44,423
Charge for the Year	3,756	513	15,247	288	19,804
On disposals	-	-	(2,036)	-	(2,036)
Reclassifications	1	-	-	(1)	-
At 2nd December 2007	16,941	2,366	41,831	1,053	62,191
Net book value					
At 3rd December 2006	7,445	9,051	60,613	1,282	78,391
At 2nd December 2007	9,722	8,536	64,896	1,223	84,377

Included in Computer Software & Hardware and Plant & Machinery are assets purchased under finance leases at a cost of £55,269,000 (2006 – £42,189,000), the accumulated depreciation on these assets at 2nd December 2007 is £25,683,000 (2006 – £17,775,000)

Land & Buildings is made up of Leasehold Property – Short Term - at a cost of £8,985,000 (2006 - £8,985,000) with accumulated depreciation of £2,310,000 (2006 - £1,834,000), Freehold Buildings at a cost of £1,119,000 (2006 - £1,119,000) with accumulated depreciation of £58,000 (2006 - £19,000) The remainder is made up of Freehold Land which is not depreciated

Plant & Machinery includes vehicles at a cost of £23,736,000 (2006 - £22,373,000) with accumulated depreciation of £12,174,000 (2006 - £9,931,000)

Depreciation charge for the financial year includes a charge of £613,000 (2006 - £477,000) in respect of Plant & Machinery written down to net realisable value

Included within tangible fixed assets is capital work in progress for Plant & Machinery of £9,151,000 (2006 - £11,654,000) and Computer Software & Hardware of £239,000 (2006 - £851,000)

12. Fixed asset investments

	2007	2006
	£000s	£000s
At 3rd December 2006 and 2nd December 2007	395	395

The investments comprise a 25% interest in Paneltex Limited, an unlisted company, at a cost of £395,000 This stake was acquired in June 2001 Payment for the shares was partly in cash (£237,000) and partly in equity (1,975 Convertible Preference shares) The directors believe that the market value of this investment is equal to the purchase price

The Company's 25% interest in Paneltex Limited has not been treated as an associated undertaking as its majority shareholder controls the company and Ocado Limited does not exercise significant influence

Fixed asset investments (continued)

In the year to 30 June 2007 Paneltex Limited made a profit before tax of £618,000 (2006 - £221,000) Its net assets at 30 June 2007 were £2,071,000 (2006 - £1,558,000) Further details of the relationship with Paneltex Limited are included in Note 26

Details of Ocado Limited's subsidiary company are included in Note 23

13. Stock

	2007 £000s	2006 £000s
Goods for resale	7,735	6,819
Consumables	565	359
	8,300	7,178

14. Debtors

	2007 £000s	2006 £000s
Trade debtors	1,073	3,632
Other debtors	580	455
VAT recoverable	1,304	1,278
Prepayments	6,501	5,844
	9,458	11,209

15. Creditors: amounts falling due within one year

	2007 £000s	2006 £000s
Overdraft	395	516
Trade creditors	20,142	30,868
Obligations under finance leases	3,870	6,282
Taxation and social security	2,681	1,493
Other loans	932	5,626
Accruals and deferred income	12,011	11,418
	40,031	56,203

The Company renewed its overdraft facility of £5m with Barclays Bank Plc in November 2007

Termination of a contract for the provision of third party logistics services during the financial year (see Note 7) resulted in a reduction in the Trade Creditors balance of £7m

16. Creditors: amounts falling due after more than one year

	2007 £000s	2006 Restated* £000s
Non-Convertible loans - from Financial Institutions and other	46,661	28,667
Obligations under finance leases	36,152	25,677
	82,813	54,344
Convertible loans - from shareholders	33,424	31,268
	116,237	85,612

* Prior year comparatives have been restated for the adoption of FRS20 and FRS25 refer to Note 1

17. Summary of borrowings

	2007	2006 Restated*
	£000s	£000s
Due date		
Less than one year		
Other loans	932	5,626
Obligations under finance leases	3,870	6,282
Between one year and two years		
Other loans	21,422	6,468
Obligations under finance leases	7,615	14,390
Between two and five years		
Other loans	56,263	52,368
Obligations under finance leases	28,312	11,142
Over five years		
Other loans	2,400	1,099
Obligations under finance leases	225	145
Total		
Other loans	81,017	65,561
Obligations under finance leases	40,022	31,959
Total Borrowings	121,039	97,520

A loan of £8 0m was entered into in December 2004, £7 2m of which was used to repay an existing loan The £8 0m loan is repayable in quarterly instalments ending in June 2012 and bears interest at a rate of LIBOR + 3 5% In May 2007 the Company repaid the outstanding balance on this loan and took out a new loan for £8 0m from the same lender at a similar rate of interest and repayable in quarterly instalments commencing May 2009 and ending in May 2014

The Company entered into a loan of £20 0m in December 2004, repayable in instalments from November 2007 to November 2011 The loan bears interest at a rate of LIBOR + 5% and 300 basis points of the interest is rolled up into the value of the loan In February 2007 the Company drew down on a £15m loan facility with similar terms to the original loan A repayment of £2 5m against both loans was made in November 2007

£12 3m in B loan stock was issued to John Lewis Plc in January 2003 and is repayable in full in January 2010 The B loan stock is not interest bearing but confers the right to subscribe for up to 145,271 Convertible Preference shares at a price of £84 70 per share on the occurrence of certain trigger events (including, inter alia, an issue of new shares in the Company)

£8 6m in C loan stock was issued to John Lewis Plc in February 2004 and is repayable in full in February 2011 The C loan stock is not interest bearing but confers the right to subscribe for up to 91,143 Convertible Preference shares at a price of £94 49 per share on the occurrence of certain trigger events (including, inter alia, an issue of new shares in the Company)

In accordance with FRS 25 and the change in accounting policy set out in Note 1 2(c) the principal values of the B and C loan stock described above, have as compound financial instruments been split into their composite liability and equity components

£1 5m in convertible loan stock was issued to John Lewis Plc in July 2005 and is repayable in full in March 2009 after having been extended at the option of the loan stock holder in March 2007 on payment of a premium by the loan stock holder of £8 87 per share This now entitles the loan stock holder to convert the loan stock and accrued interest into 14,919 Convertible Preference shares at a price of £115 per share any time up to March 2009 Interest on the loan stock is only payable at the end of the loan period

* Prior year comparatives have been restated for the adoption of FRS20 and FRS25 refer to Note 1

Summary of borrowings (continued)

£12 6m in convertible loan stock was issued to Goldman Sachs International in March 2004 and is repayable in full in March 2009 after having been extended at the option of the loan stock holder in March 2007 on payment of a premium by the loan stock holder of £8 34 per share This now entitles the loan stock holder to convert the loan stock and accrued interest into 132,773 Convertible Preference shares at a price of £115 per share any time up to March 2009 Interest on the loan stock is only payable at the end of the loan period

The Company entered into a loan in April 2002 with the then landlord for the Customer Fulfilment Centre, of which £3 9m is outstanding and is repayable in fixed quarterly payments ending in March 2012 Interest is payable on the loan at a rate of 14 2% The Company has a right to repay the loan without penalty at any time on six months notice

The Company has taken out a 5 year loan in November 2006 of £1 5m which is secured on a freehold property Interest is payable on the loan at LIBOR + 1 5% and is repayable in fixed quarterly instalments with a final payment at the end of the lease

The Company has granted security in respect of loans totalling £43m over certain warehouse assets, software and intellectual property

18. Share capital

	2007	2006
Authorised	**£000s**	**£000s**
3,000,000 Ordinary shares of 1p each	30	30
3,000,000 Convertible Preference shares of 1p each	30	30
	60	60
Allotted, called up and fully paid		
1,153,186 (2006 - 951,171) Ordinary shares of 1p each	12	10
2,222,887 (2006 - 2,222,887) Convertible Preference shares of 1p each	22	22
	34	32

The outstanding loan stock issued in March 2004 and July 2005 are convertible into a maximum of 132,773 and 14,919 Convertible Preference shares respectively For more details, please see Note 17

During the financial year to 2nd December 2007, the Company granted rights to subscribe for up to 6,667 Ordinary shares at £180 per share which are exercisable at any time until November 2011 or in the event of a public listing In previous years the Company had granted rights to subscribe for up to 49,445 Ordinary shares at £180 per share on similar terms

The outstanding B and C loan stock also confers the right to subscribe for a maximum of 145,271 and 91,143 Convertible Preference shares respectively (for further details, please see Note 17)

During the financial year to 2nd December 2007, 1,348 Ordinary shares were issued as a result of employee share options being exercised The nominal value of these shares was 1p and the consideration received was £113,930 During the financial year, 200,667 Ordinary shares were issued to new and existing shareholders raising £30m

19. Reconciliation of movement in shareholders' deficit

	2007 £000s	2006 Restated* £000s
Retained loss for the financial year	(39,726)	(44,224)
Net proceeds from issue of ordinary share capital (note 18)	30,214	468
Net proceeds from issue of preference share capital (note 18)		60,000
Adjustment in respect of employee share options (note 22)	181	147
Net addition to shareholders' funds	30,395	60,615
Opening shareholders' deficit (previously reported)	(33,121)	(54,164)
Prior year adjustment - FRS25		4,652
Opening shareholders' deficit (restated*)	(33,121)	(49,512)
Closing shareholders' deficit	(42,452)	(33,121)

20. Reserves

	Share premium account £000s	Profit and loss account £000s	Other Reserve £000s
As at 3rd December 2006 (previously reported)	210,897	(247,748)	-
Prior year adjustment - FRS25		(3,184)	6,882
As at 3rd December 2006 (restated*)	210,897	(250,932)	6,882
Premium on shares issued	30,212		
Retained loss for the financial year		(39,726)	
Adjustment in respect of employee share options (Note 22)		181	
As at 2nd December 2007	241,109	(290,477)	6,882

21. Notes to cashflow statement

	2007 £000s	2006 £000s
Returns on Investment and Servicing of Finance		
Interest received	824	596
Interest paid	(5,698)	(3,638)
Interest element of finance lease rental payments	(2,260)	(1,183)
	(7,134)	(4,225)
Capital Expenditure		
Payments to acquire tangible fixed assets	(20,631)	(17,601)
Receipts from sales of tangible fixed assets	10,140	-
	(10,491)	(17,601)
Financing		
New equity	30,214	60,468
New loans	26,011	13,088
Long term loans - repaid	(10,555)	(11,873)
Capital element of lease rental payments	(7,236)	(11,338)
	38,434	50,345

* Prior year comparatives have been restated for the adoption of FRS20 and FRS25 refer to Note 1

22. Share options

	Year of Issue	No.of Shares 2006	No.of Shares 2007	Exercise Price (£)	Exercise Period
Ocado Limited 2001 Inland Revenue Approved Employee Share Ownership Scheme	2001	15,666	14,920	80	24/02/03 - 29/11/11
	2001	268	268	90	30/11/04 - 29/11/11
	2002	4,545	4,154	90	31/05/05 - 29/11/12
	2003	3,111	2,704	90	31/05/06 - 29/11/13
	2004	4,216	3,717	90	31/05/07 - 29/11/14
	2005	8,691	7,150	100	31/05/08 - 29/11/15
	2005	944	944	115	31/05/08 - 29/11/15
	2006	3,273	2,396	140	31/05/09 - 30/05/16
	2006	3,894	2,265	150	30/11/09 - 29/11/16
	2007	-	8,667	150	31/05/10 - 29/11/17
Ocado Limited 2001 Inland Revenue Non-Approved Employee Share Ownership Scheme	2001	1,201	1,188	80	01/08/03 - 29/11/11
	2001	872	872	90	30/11/04 - 29/11/11
	2002	1,380	1,243	90	31/05/05 - 29/11/12
	2002	3,500	3,500	100	07/02/05 - 06/02/12
	2002	3,500	3,500	150	07/02/05 - 06/02/12
	2003	2,000	2,000	90	31/05/06 - 29/11/13
	2005	20	20	100	31/05/08 - 29/11/15
	2005	13,421	12,492	115	16/05/08 - 29/11/15
	2007	-	508	150	31/05/10 - 30/05/17

Details of the share options outstanding during the financial year are as follows

	2007		2006	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at beginning of period	70,503	103	82,743	97
Granted during the period	9,873	150	8,184	145
Forfeited during the period	(6,520)	124	(13,458)	112
Exercised during the period	(1,348)	85	(6,966)	67
Expired during the period	-		-	
Outstanding at the end of the period	72,508	108	70,503	103
Exercisable at the end of the period	38,065	92	36,043	92

The Share Valuation Office of the Inland Revenue has confirmed in correspondence dated November 2007 that in respect of 2007 grants £150 per share was not less than the market value of the Company's shares

Share options (continued)

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

	2007	2006
Weighted average share price	150	145
Weighted average exercise price	272 7	267 1
Expected volatility	0 50	0 50
Weighted Expected life	5 28	6 18
Risk-free interest rate	5 0%	5 0%
Expected dividend yield	0 0%	0 0%

Expected volatility was determined by comparing the Company to others of a similar size or which operate in similar markets, and adjusted to reflect the private company status 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

Under UK GAAP, a charge is made to the profit and loss account based on the fair value of grants in accordance with FRS 20 'Share-based Payments' All share awards are equity settled The charge to the profit and loss account is detailed in Note 7

23. Subsidiary

Jalapeno Partners Limited is a 100% owned subsidiary of Ocado Limited It is incorporated in the UK with registration no 4204963 It is a dormant company as defined by the Companies Act 1985 Section 250 The only balances in the accounts of Jalapeno Partners are share capital of £1 and an inter-company creditor of £1

Consolidated accounts have not been produced due to the immateriality of the dormant subsidiary

24. Capital commitments

	2007 £000s	2006 £000s
Contracts placed for future capital expenditure not provided in the financial statements	7,270	6,510

25. Financial commitments

At 2nd December 2007 the Company had annual commitments under non-cancellable operating leases as follows

	Plant & Machinery 2007 £000s	Plant & Machinery 2006 £000s	Land & Buildings 2007 £000s	Land & Buildings 2006 £000s
Expiry date				
Within one year	218	278	52	52
Between two and five years	-	-	641	641
Over five years	-	-	2,651	2,651
	218	278	3,344	3,344

26. Related party transactions

The following transactions are disclosed under the terms of FRS8

John Lewis Plc is a 24% shareholder in the Company The Company has acquired goods for resale and professional services from affiliates of John Lewis Plc and charged affiliates in connection with other services The net amounts payable to these affiliates during the financial year were

	2007	2006
	£000s	£000s
Professional Services		
- Waitrose	1,976	2,166
- John Lewis and affiliates	211	270
Goods for Resale		
- Waitrose	42,338	52,395
	44,525	54,831
Amounts owed to affiliates of John Lewis Plc at the year end	5,318	5,414
Amounts owed by affiliates of John Lewis Plc at the year end	432	1,983

John Lewis Plc has since 2002 acted as guarantor for the obligations of Ocado Limited under a lease for the Hatfield site The maximum liability of John Lewis Plc under the guarantee is £6 75m Ocado Limited pays John Lewis Plc a fee of £150,000 per annum in consideration for the guarantee being provided in accordance with the terms of an agreement entered in to September 2005

Directors and their families are customers of the Company and have purchased goods at normal market value from the Company during the financial year Goods for resale with a value of £33,000 (2006 - £87,000) were purchased on an arms length basis from one close relative of an executive director Shortly before the year end the Chairman exercised a right in his contract to purchase 667 Ordinary shares at market value of £100,000 The purchase price was outstanding at year end but was paid subsequent to the year end There were no other material transactions or amounts owed or owing with any of the Company's directors or members of their close family

Paneltex Ltd was paid £298,000 (2006 – £585,000) in relation to the purchase of plant and machinery during the financial year Further details of the investment in Paneltex Ltd are provided in Note 12 of these financial statements In October 2005 an interest-free loan of £250,000 was made to Paneltex Limited in respect of work that had been completed on the Company's assets The loan was repaid in May 2006

27. Post balance sheet events

In March 2008 the Company completed the purchase of a freehold property in Leeds

In July 2008 the Company agreed a new £5m loan facility and mortgages for two freehold development properties