

## ANNUAL REPORT ON REMUNERATION — IMPLEMENTATION OF POLICY FOR 2015

### INTRODUCTION

This part of the Directors' remuneration report sets out implementation of the Directors' remuneration policy for 2015.

### SUMMARY OF CHANGES FOR EXECUTIVE DIRECTORS

This table briefly summarises the proposals for the Directors' remuneration arrangements for 2015 when compared to the arrangements for the period.

Base salary and benefits	Pension	AIP	Long-term incentives	All-employee schemes
Base salary will be subject to annual review.	No changes proposed.	No change to the maximum opportunity, measures or structure of scheme (except a change in weighting of performance measures).	No change to the maximum opportunity for LTIP awards. Additional financial target.	New invitation to participate in Sharesave. Ongoing participation in the SIP.

### BASE SALARY AND BENEFITS

The Remuneration Committee expects to finalise its annual review of the Executive Directors' base salaries later in 2015, in line with the timing of pay reviews for all of the Group's employees.

The benefits in kind offered to the Executive Directors are expected to remain unchanged.

### PENSIONS

Pension contributions, as described in the Directors' remuneration policy, remain unchanged from the previous period.

### 2015 AIP

The Remuneration Committee approved the implementation of an AIP for the Executive Directors applicable to the 2014/2015 financial year. This plan broadly reflects the framework of the 2014 AIP and the Directors' remuneration policy.

The bonus potential for the Executive Directors is 100% and for the Chief Executive Officer is 125% of base salary for "maximum" performance, which is the same as the 2014 AIP.

In order to align awards made under the AIP with the Group's focus on delivering key strategic objectives in 2015, the weighting towards the achievement of individual strategic objectives has been increased for the 2014/2015 financial year. The performance measures have been amended to 35% for Gross sales, 35% for Group EBITDA and 30% for performance measured against role-specific objectives. In 2015, the Gross sales target relates to the Group's retail sales and does not include any income or benefits from the Morrisons operation. The rationale for setting these performance measures has not changed from 2014. For an explanation, see the Annual report on remuneration on page 114.

The actual performance conditions are not disclosed due to their commercial sensitivity on the basis that if disclosed it would likely damage the Company's commercial interests. The Company will disclose the extent to which they were met after the end of the performance period.

# DIRECTORS' REMUNERATION REPORT continued

## 2015 LTIP AWARDS

The Remuneration Committee approved the making of awards under the LTIP for the Executive Directors for the 2014/2015 Financial year. The amount of the LTIP awards is based on a percentage of salary, expected to be broadly in line with the percentages agreed for the 2014 LTIP awards and in line with the Directors' remuneration policy.

In accordance with the Directors' remuneration policy, the Remuneration Committee proposes to make 2015 LTIP award grants subject to earnings per share and Revenue performance conditions, as well as a third performance condition. The additional performance condition will be made-up of two measurable financial targets linked to the economic efficiency of the new proprietary infrastructure solution. The Remuneration Committee believes that this performance condition encourages the delivery of a crucial strategic objective of the Group, and provides a better basis for assessing performance for the performance period than the two measures alone that were used for the 2014 LTIP awards. The performance conditions concerning the financial performance of the Group, earnings per share and Revenue, will be focused on the Group's retail business performance only and will be weighted 25% each, while the new proprietary infrastructure solution performance condition will have a 50% weighting.

No LTIP award will vest unless a "threshold" level of performance condition has been achieved. At "threshold" performance, 25% of an LTIP award will vest and at "maximum" performance, 100% of an LTIP award will vest. Full vesting will occur where exceptional performance levels have been achieved and significant shareholder value created.

The actual performance conditions are not disclosed due to their commercial sensitivity on the basis that if disclosed it would likely damage the Company's commercial interests. The Company will disclose the extent to which they were met after the end of the performance period.

## SIP

The Executive Directors are expected to continue their participation in the scheme in 2015.

## SHARESAVE

The Executive Directors will be invited to participate in the next offer of Sharesave, expected to be made in 2015. In November 2014, all of the Executive Directors confirmed their intention to participate in the 2015 Sharesave.

## CHANGES FOR NON-EXECUTIVE DIRECTORS AND CHAIRMAN

The review of remuneration of the Non-Executive Directors will be finalised in line with the timing of pay reviews for all of the Group's employees. There will be no change to the remuneration arrangements for the Chairman and currently no changes are expected for the Non-Executive Directors for 2015.

## SHAREHOLDER APPROVAL AND VOTES AT AGM

The 2014 Directors' remuneration report will be subject to a shareholder vote at the AGM. Entitlement of a Director to remuneration is not made conditional on this resolution being passed.

The Remuneration Committee Chairman is committed to ongoing shareholder dialogue on Directors' remuneration and takes an active interest in voting outcomes. In the event of a substantial vote against a resolution in relation to the Directors' remuneration report, the Directors' remuneration policy or a new share scheme, the Company would seek to understand the reasons for any such vote and would detail in the announcement of the results of voting any actions it intends to take to understand the reasons behind the vote result and also note this in the next annual report. The Remuneration Committee considers that a vote against that exceeds 20% should be considered significant and requires explanation.

The Directors' remuneration report and the GIP resolutions received significant shareholder votes against them (19.96% and 26.76% respectively) at the annual general meeting in May 2014 (see the table on the next page for the voting outcomes for the resolutions regarding remuneration at the previous annual general meeting). The Remuneration Committee had consulted with shareholders on the GIP and the Directors' remuneration policy and other key remuneration changes prior to the 2014 annual general meeting.

The Remuneration Committee will continue to seek the views of shareholders on any significant changes to the Directors' remuneration arrangements or any proposed exercises of discretion in relation thereto.

The table below sets out the actual voting in respect of resolutions regarding remuneration at the three previous annual general meetings.

Resolution text	Votes for	% For	Votes against	% Against	Total votes	Votes withheld
<b>2014 AGM</b>						
Approve the Directors' remuneration policy	426,933,076	87.15	62,969,024	12.85	499,692,970	9,790,870
Approve the 2013 Directors' remuneration report	399,764,910	80.04	99,701,426	19.96	499,693,161	226,825
Approve the Ocado Growth Incentive Plan	365,970,183	73.24	133,721,017	26.76	499,693,271	2,071
Approve the 2014 ESOS	481,882,997	97.10	14,373,969	2.90	499,692,971	3,436,005
<b>2013 AGM</b>						
Approve the 2012 Directors' remuneration report	349,776,432	76.54	107,184,194	23.46	461,418,179	4,457,553
Approve the Ocado Long Term Incentive Plan	360,235,983	86.40	56,698,838	13.60	461,418,179	44,483,358
Approve the Chairman's Share Matching Award	384,380,959	83.30	77,037,220	16.70	461,418,179	0
<b>2012 AGM</b>						
Approve the 2011 Directors' remuneration report	338,085,907	97.60	8,316,258	2.40	346,402,165	8,767,398

#### BASIS OF PREPARATION AND AUDIT REVIEW

This report is a Directors' remuneration report for the 52 weeks ended 30 November 2014, prepared for the purposes of satisfying section 420(1) and section 421(2A) of the Companies Act. It has been drawn up in accordance with the Companies Act and the 2012 Code, the Regulations, the Listing Rules and the Disclosure and Transparency Rules. The report also makes reference to the new requirements of the 2014 Code, where appropriate.

In accordance with section 497 of the Companies Act and the Regulations, certain parts of this Directors' remuneration report (where indicated) have been audited by the Company's auditors, PricewaterhouseCoopers LLP.

A copy of this Directors' remuneration report will be available on the Company's corporate website.

This Directors' remuneration report is approved by the Board and signed on its behalf by

**Douglas McCallum**

Chairman of the Remuneration Committee

Ocado Group plc

3 February 2015