

Notes to the Consolidated Financial Statements

4.10 Share Options and Other Equity Instruments

Accounting Policies

Employee Benefits

Employees (including Directors) of the Group receive part of their remuneration in the form of share-based payments, whereby, depending on the scheme, employees render services in exchange for rights over shares ("equity-settled transactions") or entitlement to a future cash payment ("cash-settled transactions").

The cost of equity-settled transactions with employees is measured, where appropriate, with reference to the fair value at the date on which they are granted. Where options need to be valued an appropriate valuation model is applied. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The cost of cash-settled transactions is measured with reference to the fair value of the liability, which is taken to be the closing price of the Company's shares. Until the liability is settled it is remeasured at the end of each reporting period and at the date of settlement, with any changes in the fair value being recognised in the Consolidated Income Statement for the period. For more details please refer to Note 3.11 Provisions – Employee incentive schemes.

The cost of equity-settled transactions is recognised, along with a corresponding increase in equity, over the years in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date"). The cost of cash-settled transactions is recognised, along with a corresponding provision for the expected cash settlement, over the vesting period.

At each reporting date, the cumulative expense recognised for equity-settled transactions reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of management, will ultimately vest. Management's estimates are based on the best available information at that date.

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

The Group has exposure in respect of cash-settled share-based payment transactions and share-based payment transactions with cash alternatives as defined by IFRS 2 "Share-Based Payment" in respect of bad leaver provisions in the Group's JSOS, the Cash LTIP and the Beauty MIP (see Note 3.11 Provisions). National insurance contribution (NIC) obligations arising from cash-settled schemes and HMRC unapproved equity-settled schemes are treated as if they are cash settled, regardless of the actual cash/equity determination of the scheme itself.

Share Options and Other Equity Instruments

The Group operates various employee share incentive schemes, namely the Executive Share Ownership Scheme (the "ESOS"), the Joint Share Ownership Scheme (the "JSOS"), the Sharesave Scheme, the Long Term Incentive Plan ("LTIP"), the Growth Incentive Plan ("GIP") and the share incentive plan ("SIP"). The Group also operates two cash-settled incentive schemes, the Cash LTIP and the Beauty MIP.

The total expense for the period relating to employee share-based payment plans was £7.1 million (2015: £9.9 million), of which £6.4 million (2015: £7.8 million) related to equity-settled share-based payment transactions and £0.7 million (2015: £2.1 million) as a provision for the payment of employers' NIC upon allotment of HMRC unapproved equity-settled share schemes, the Cash LTIP and the Beauty MIP (see Note 3.11 Provisions for further details).

(a) ESOS

The Group's ESOS is an equity-settled share option scheme approved by HMRC. Options have also been granted under the terms of HMRC's schedule, which is not approved. The ESOS was established by Ocado in 2001.

Under the ESOS, Ocado or the trustees of an employee trust may grant options over shares in the Company to eligible employees. The eligible employees to whom options are granted and the terms of such options will be determined by the Directors of Ocado or the trustees. The employees who are eligible to participate in the ESOS are all Ocado's Executive Directors and employees, including the employees of the Company's subsidiaries. Options are not transferable. The exercise price of options may not be less than the market value of the Company's shares on the date of grant. If the trustees or the Directors have determined that the exercise of an option will be satisfied by the issue of ordinary shares, the exercise price may also not be less than the nominal value of ordinary shares.

The Directors of Ocado or the trustees may impose a performance target and any further condition determined to be appropriate on the exercise of an option. In most cases any performance target must be measured over a period of at least three years. There are currently no options granted which are subject to performance targets that have not yet been met. The vesting period for the ESOS is three years. If the options remain unexercised after a period of ten years from the date of grant or the employee leaves the Group, the options expire (subject to a limited number of exceptions).

4.10 Share Options and Other Equity Instruments (continued)

At each respective balance sheet date the outstanding options were as follows:

| | Year of Issue | 27 November 2016 | Exercise Price (£) | 29 November 2015 | Exercise Price (£) | Exercise Period |
|-----------------------------------|---------------|------------------|--------------------|------------------|--------------------|-------------------|
| Approved | | | | | | |
| | 2006 | — | 1.40 | 2,298 | 1.40 | 31/05/09–30/05/16 |
| | 2006 | 2,073 | 1.50 | 4,920 | 1.50 | 30/11/09–29/11/16 |
| | 2007 | 54,534 | 1.50 | 59,901 | 1.50 | 31/05/10–29/11/17 |
| | 2008 | 22,420 | 1.35 | 24,134 | 1.35 | 31/05/11–30/05/18 |
| | 2008 | 22,891 | 1.20 | 28,123 | 1.20 | 30/11/11–29/11/18 |
| | 2009 | 32,173 | 1.20 | 34,121 | 1.20 | 31/05/12–30/05/19 |
| | 2009 | 116,647 | 1.35 | 140,097 | 1.35 | 02/11/12–29/11/19 |
| | 2010 | 172,265 | 1.65 | 191,579 | 1.65 | 30/06/13–29/06/20 |
| | 2011 | 60,871 | 1.89 | 78,221 | 1.89 | 19/07/14–18/07/21 |
| | 2011 | 185,460 | 2.55 | 200,629 | 2.55 | 14/02/14–13/02/21 |
| | 2012 | 153,824 | 0.85 | 186,535 | 0.85 | 27/06/15–26/06/22 |
| | 2012 | 241,217 | 1.03 | 297,763 | 1.03 | 21/02/15–13/02/22 |
| | 2012 | 486,212 | 1.05 | 571,661 | 1.05 | 09/03/15–08/03/22 |
| | 2013 | 323,383 | 1.28 | 532,640 | 1.28 | 05/03/16–04/03/23 |
| | 2013 | 133,312 | 3.02 | 156,894 | 3.02 | 08/07/16–07/07/23 |
| | 2014 | 45,656 | 5.10 | 53,553 | 5.10 | 05/02/17–04/02/24 |
| | 2014 | 379,030 | 4.84 | 415,951 | 4.84 | 17/03/17–16/03/24 |
| | 2015 | 394,350 | 3.77 | 459,138 | 3.77 | 13/03/18–12/03/25 |
| | 2015 | 22,980 | 4.46 | 22,980 | 4.46 | 01/07/18–30/06/25 |
| | 2015 | 35,439 | 4.39 | 45,448 | 4.39 | 10/07/18–09/07/25 |
| | 2016 | 597,596 | 2.70 | — | — | 16/03/19–15/03/26 |
| | 2016 | 31,968 | 2.59 | — | — | 15/07/19–14/07/26 |
| Total Approved Options | | 3,514,301 | | 3,506,586 | | |
| Non-Approved | | | | | | |
| | 2007 | 50,833 | 1.50 | 50,833 | 1.50 | 31/05/10–30/05/17 |
| | 2009 | 122,600 | 1.20 | 122,600 | 1.20 | 31/05/12–30/05/19 |
| | 2012 | 119,088 | 1.05 | 124,126 | 1.05 | 09/03/15–08/03/22 |
| | 2014 | 11,578 | 3.27 | 12,030 | 3.27 | 08/08/17–07/08/24 |
| | 2014 | 29,962 | 3.36 | 29,962 | 3.36 | 01/08/17–31/07/24 |
| | 2014 | 23,945 | 4.84 | 24,516 | 4.84 | 17/03/17–16/03/24 |
| | 2015 | 30,901 | 3.77 | 30,901 | 3.77 | 13/03/18–12/03/25 |
| | 2015 | 18,172 | 4.46 | 18,622 | 4.46 | 01/07/18–30/06/25 |
| | 2015 | 18,803 | 4.39 | 19,649 | 4.39 | 10/07/18–09/07/25 |
| | 2016 | 152,922 | 2.70 | — | — | 16/03/19–15/03/26 |
| | 2016 | 63,532 | 2.59 | — | — | 15/07/19–14/07/26 |
| Total Non-Approved Options | | 642,336 | | 433,239 | | |
| Total | | 4,156,637 | | 3,939,825 | | |

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4.10 Share Options and Other Equity Instruments (continued)

Of the total employee share options above, the following options were subject to performance criteria in relation to the average contribution by basket and EBITDA[®]:

| Year of Issue | 27 November 2016 | | 29 November 2015 | | Exercise Period |
|---|-------------------------|--------------------|-------------------------|--------------------|---------------------|
| | Number of Share Options | Exercise Price (£) | Number of Share Options | Exercise Price (£) | |
| 2009 | 139,600 | 1.20 | 139,600 | 1.20 | 31/05/12 – 30/05/19 |
| Total options subject to performance criteria | 139,600 | | 139,600 | | |

Details of the movement in the number of share options outstanding during each period are as follows:

| | 27 November 2016 | | 29 November 2015 | |
|--|-------------------------|-------------------------------------|-------------------------|-------------------------------------|
| | Number of Share Options | Weighted Average Exercise Price (£) | Number of Share Options | Weighted Average Exercise Price (£) |
| Outstanding at the beginning of the period | 3,939,825 | 2.24 | 5,158,305 | 1.73 |
| Granted during the period | 899,687 | 2.69 | 638,176 | 3.88 |
| Forfeited during the period | (272,688) | 3.04 | (366,445) | 2.29 |
| Exercised during the period | (410,187) | 1.25 | (1,490,211) | 1.18 |
| Outstanding at the end of the period | 4,156,637 | 2.38 | 3,939,825 | 2.24 |
| Exercisable at the end of the period | 2,299,803 | 1.42 | 2,117,541 | 1.32 |

Since the Company's Admission, the market value of the Company's shares at each option grant date was taken to be the closing mid-market price of the shares on the day prior to issuance. Prior to the Admission, the market value of the Company's shares was derived based on the market value of similar companies and by taking into account transactions with shareholders during the relevant period. The Share Valuation Office of HMRC has confirmed in correspondence that in respect of options granted prior to Admission, the exercise price was not less than the market value of the Company's shares at each option grant date.

For exercises during the period, the weighted average share price at the date of exercise was £2.84 (2015: £3.89).

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

| | 27 November 2016 | 29 November 2015 |
|--|------------------|------------------|
| Weighted average share price | £2.69 | £3.88 |
| Weighted average exercise price | £2.69 | £3.88 |
| Expected volatility | 0.40 | 0.40 |
| Weighted expected life — years | 3.00 | 3.00 |
| Weighted average risk-free interest rate | 0.5% | 0.8% |
| Expected dividend yield | 0.0% | 0.0% |

Given the immaturity of the Company's share history, the expected volatility was determined by considering the historic performance of the shares of a basket of companies similar to and including the Company. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. All share awards under the ESOS are equity-settled, apart from employer's NIC due on unapproved ESOS awards which is treated as cash-settled.

4.10 Share Options and Other Equity Instruments (continued)

The weighted average remaining contractual lives for outstanding share options under the ESOS are as follows:

| | 27 November 2016 | | | 29 November 2015 | | Weighted Average Remaining Contractual Life (years) |
|--------------------------------------|--------------------|-------------------------|---|--------------------|-------------------------|---|
| | Exercise Price (£) | Number of Share Options | Weighted Average Remaining Contractual Life (years) | Exercise Price (£) | Number of Share Options | |
| | 0.85 | 153,824 | 5.5 | 0.85 | 186,535 | 6.6 |
| | 1.03 | 241,217 | 5.2 | 1.03 | 297,763 | 6.2 |
| | 1.05 | 605,300 | 5.3 | 1.05 | 695,787 | 6.3 |
| | 1.20 | 177,664 | 2.5 | 1.20 | 184,844 | 3.4 |
| | 1.28 | 323,383 | 6.3 | 1.28 | 532,640 | 7.3 |
| | 1.35 | 139,067 | 2.8 | 1.35 | 164,231 | 3.8 |
| | 1.40 | — | — | 1.40 | 2,298 | 0.5 |
| | 1.50 | 107,440 | 0.6 | 1.50 | 115,654 | 1.5 |
| | 1.65 | 172,265 | 3.6 | 1.65 | 191,579 | 4.6 |
| | 1.89 | 60,871 | 4.6 | 1.89 | 78,221 | 5.6 |
| | 2.55 | 185,460 | 4.2 | 2.55 | 200,629 | 5.2 |
| | 3.02 | 133,312 | 6.6 | 3.02 | 156,894 | 7.6 |
| | 3.27 | 11,578 | 7.7 | 3.27 | 12,030 | 8.7 |
| | 3.36 | 29,962 | 7.7 | 3.36 | 29,962 | 8.7 |
| | 3.77 | 425,251 | 8.3 | 3.77 | 490,039 | 9.3 |
| | 4.39 | 54,242 | 8.6 | 4.39 | 65,097 | 9.6 |
| | 4.46 | 41,152 | 8.6 | 4.46 | 41,602 | 9.6 |
| | 4.84 | 402,975 | 7.3 | 4.84 | 440,467 | 8.3 |
| | 5.10 | 45,656 | 7.2 | 5.10 | 53,553 | 8.2 |
| | 2.59 | 95,500 | 9.6 | — | — | — |
| | 2.70 | 750,518 | 9.3 | — | — | — |
| Outstanding at the end of the period | | 4,156,637 | | | 3,939,825 | |

(b) JSOS

The JSOS is an executive incentive scheme which was introduced to incentivise and retain its Executive Directors and select members of senior management of the Group (the "Participants"). It is a share ownership scheme under which the Participants and Estera Trust (Jersey) Limited, the Employee Benefit Trust Trustee, held at the balance sheet date separate beneficial interests in 32,830,613 (2015: 34,770,981) ordinary shares which represents 5.2% (2015: 5.6%) of the issued share capital of the Company. Of these ordinary shares, 79,032 (2015: 1,994,071) are held by the Employee Benefit Trust on an unallocated basis.

Nature of Interests

Interests take the form of a restricted interest in ordinary shares in the Company (the "Interest"). An Interest permits a Participant to benefit from the increase (if any) in the value of a number of ordinary shares in the Company ("Shares") over specified threshold amounts. In order to acquire an Interest, a Participant must enter into a joint share ownership agreement with the Employee Benefit Trust Trustee, under which the Participant and the Employee Benefit Trust Trustee jointly acquire the Shares and agree that once all vesting conditions have been satisfied the participant is awarded a specific number of Shares equivalent to the benefit achieved, or at their discretion, when the Shares are sold, the Participant has a right to receive a proportion of the sale proceeds insofar as the value of the Shares exceeds the threshold amount.

Participants

In prior periods, Interests were acquired by the Participants under the first JSOS scheme ("JSOS1") in 32,476,700 Shares at an issue price of £1.50 per share, and the second group of Participants' JSOS scheme ("JSOS2") in 3,990,799 Shares at an issue price of £1.70 per share. In prior periods, 2,953,675 Shares in which interests of Participants have lapsed were reallocated to the third group of Participants under the JSOS scheme ("JSOS3"). For JSOS1 and JSOS2 there are four tranches, each with their own hurdle price. For JSOS3 there are two tranches, each with their own hurdle price.

| Tranche | JSOS1 | | | JSOS2 | | | JSOS3 | | | | |
|----------|--------------|--------------|------------------|----------|--------------|--------------|------------------|----------|--------------|--------------|-------------------|
| | Vesting Date | Hurdle Value | % of Issue Price | Tranche | Vesting Date | Hurdle Value | % of Issue Price | Tranche | Vesting Date | Hurdle Value | % of Market Price |
| 1 (2011) | Jan 2011 | £1.73 | 115% | 1 (2012) | Jun 2012 | £1.96 | 115% | 1 (2013) | Jan 2013 | £1.70 | 230% — 265% |
| 2 (2012) | Jan 2012 | £1.91 | 127% | 2 (2013) | Jun 2013 | £2.15 | 127% | 2 (2014) | Jan 2014 | £1.80 | 244% — 280% |
| 3 (2013) | Jan 2013 | £2.08 | 139% | 3 (2014) | Jun 2014 | £2.36 | 139% | — | — | — | — |
| 4 (2014) | Jan 2014 | £2.28 | 152% | 4 (2015) | Jun 2015 | £2.59 | 152% | — | — | — | — |

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4.10 Share Options and Other Equity Instruments (continued)

For JSOS1, Participants were required to purchase their Interest for 2.0% of the issue price. For JSOS2, the price was in a range of 7.1% to 10.8%, and for JSOS3, the price was in a range of 1.47% to 1.70% of the share price at date of issue. When an Interest vests, the Employee Benefit Trust Trustee will transfer Shares to the Participant of equal value to the Participant's Interest or the Shares will be sold and the Employee Benefit Trust Trustee will account to the Participant for the balance, i.e. the difference between the sale proceeds (less expenses) and the hurdle price.

Vesting Conditions

The vesting of the Interests granted to Participants is subject to a time vesting condition, as detailed above.

The fair value of the Interests awarded under the JSOS was determined using the Black-Scholes Option Pricing Model. As per IFRS 2 "Share-Based Payment", market-based vesting conditions and the share price target conditions in the JSOS have been taken into account in establishing the fair value of the equity instruments granted. Other non-market or performance-related conditions were not taken into account in establishing the fair value of equity instruments granted; instead, these non-market vesting conditions are taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount so that ultimately the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that will eventually vest.

In determining the fair value of the Interests granted, the Black-Scholes Option Pricing Model was used with the following inputs:

| JSOS1 | Tranche 1 | Tranche 2 | Tranche 3 | Tranche 4 |
|---------------------------------|-----------|-----------|-----------|-----------|
| Weighted average share price | £1.35 | £1.35 | £1.35 | £1.35 |
| Weighted average exercise price | £1.73 | £1.91 | £2.08 | £2.28 |
| Expected volatility | 0.25 | 0.25 | 0.25 | 0.25 |
| Weighted expected life — years | 0.91 | 1.91 | 2.91 | 3.91 |
| Risk-free interest rate | 3.5% | 3.5% | 3.5% | 3.5% |
| Expected dividend yield | 0.0% | 0.0% | 0.0% | 0.0% |

| JSOS2 | Tranche 1 | Tranche 2 | Tranche 3 | Tranche 4 |
|---------------------------------|-----------|-----------|-----------|-----------|
| Weighted average share price | £1.70 | £1.70 | £1.70 | £1.70 |
| Weighted average exercise price | £1.96 | £2.15 | £2.36 | £2.59 |
| Expected volatility | 0.25 | 0.25 | 0.25 | 0.25 |
| Weighted expected life — years | 1.0 | 2.0 | 3.0 | 4.0 |
| Risk-free interest rate | 3.5% | 3.5% | 3.5% | 3.5% |
| Expected dividend yield | 0.0% | 0.0% | 0.0% | 0.0% |

Expected volatility was determined by comparing the Company to a basket of others of a similar size or which operate in a similar industry.

As the Interests in JSOS3 were reallocated from lapsed Interests in JSOS1 and JSOS2, the fair value of those Interests had been calculated in prior periods using the inputs disclosed in the tables above.

Details of the movement in the number of Interests in Shares during each period are as follows:

| | 27 November 2016 | | 29 November 2015 | |
|--|-------------------------------|-------------------------------------|-------------------------------|-------------------------------------|
| | Number of Interests in Shares | Weighted Average Exercise Price (£) | Number of Interests in Shares | Weighted Average Exercise Price (£) |
| Outstanding at the beginning of the period | 32,776,910 | 1.99 | 33,357,307 | 2.00 |
| Forfeited during the period | — | — | (540,817) | 2.29 |
| Exercised during the period | (25,329) | 2.05 | (39,580) | 2.32 |
| Outstanding at the end of the period | 32,751,581 | 1.99 | 32,776,910 | 1.99 |
| Exercisable at the end of the period | 32,751,581 | 1.99 | 32,776,910 | 1.99 |

4.10 Share Options and Other Equity Instruments (continued)

(c) Non-Employee Share Options

Options to subscribe for ordinary shares and convertible preference shares have been granted by Ocado Limited to non-employees. These options are equity-settled, and do not have any vesting criteria. As a result of the Group's restructuring in 2014, these options are now held over ordinary shares in Ocado Group plc.

At each respective balance sheet date the outstanding options were as follows:

| | 27 November 2016 | | 29 November 2015 | | Exercise Period |
|--------------------------------------|-------------------------|--------------------|-------------------------|--------------------|---------------------|
| | Number of Share Options | Exercise Price (£) | Number of Share Options | Exercise Price (£) | |
| January 2004 | 435,300 | 1.03 | 435,300 | 1.03 | 03/01/04 – 03/01/18 |
| Outstanding at the end of the period | 435,300 | | 435,300 | | |

There was no movement in the number of non-employee share options outstanding in the period (2015: Enil). All non-employee share options are exercisable at the end of the period.

The weighted average remaining contractual lives for outstanding non-employee share options are as follows:

| | 27 November 2016 | | | 29 November 2015 | | Weighted Average Remaining Contractual Life (years) |
|--------------------------------------|--------------------|-------------------------|---|--------------------|-------------------------|---|
| | Exercise Price (£) | Number of Share Options | Weighted Average Remaining Contractual Life (years) | Exercise Price (£) | Number of Share Options | |
| | 1.03 | 435,300 | 1.1 | 1.03 | 435,300 | 2.1 |
| Outstanding at the end of the period | | 435,300 | | | 435,300 | |

(d) Sharesave Scheme

In 2010 the Group launched the Ocado Group Sharesave Scheme ("SAYE"). This is an HMRC approved scheme and is open to any person that was an employee or officer of the Group at the launch date. Under the scheme, members save a fixed amount each month for three years. At the end of the three-year period they are entitled to use these savings to buy shares in the Company at a price which is determined at launch date; 85% of the market value in the case of the Group's first Sharesave Scheme ("SAYE1") and 90% of the market value in the case of the Group's Sharesave Schemes SAYE2, SAYE3, SAYE4 and SAYE5.

At 27 November 2016 employees of the Company's subsidiaries held 2,950 (2015: 2,273) contracts in respect of options over 6,260,286 (2015: 3,549,479) shares. Details of the movement in the number of Sharesave options outstanding during each period are as follows:

| | 27 November 2016 | | 29 November 2015 | |
|--|-------------------------|-------------------------------------|-------------------------|-------------------------------------|
| | Number of Share Options | Weighted Average Exercise Price (£) | Number of Share Options | Weighted Average Exercise Price (£) |
| Outstanding at the beginning of the period | 3,549,479 | 3.16 | 3,789,044 | 1.67 |
| Granted during the period | 4,582,171 | 2.28 | 2,621,201 | 3.24 |
| Forfeited during the period | (1,864,633) | 3.17 | (458,162) | 3.02 |
| Exercised during the period | (6,731) | 2.31 | (2,402,604) | 0.91 |
| Outstanding at the end of the period | 6,260,286 | 2.51 | 3,549,479 | 3.16 |
| Exercisable at the end of the period | 821,345 | 3.01 | 18,607 | 2.82 |

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4.10 Share Options and Other Equity Instruments (continued)

(e) Long Term Incentive Plan

In 2013, the Group introduced an equity-settled long term incentive plan ("LTIP") as approved by the Remuneration Committee and shareholders, under which shares are conditionally awarded to Executive Directors and select members of senior management. The number of awards issued are calculated based on a percentage of the participants' salaries and will vest at the end of a period of three years from the grant date. The final number and proportion of awards expected to vest will depend on achievement of certain performance conditions. For the 2014 LTIP, the performance conditions are the Group's revenue and earnings per share for the financial year ended 27 November 2016. For both the 2015 LTIP and the 2016 LTIP, there are four equally weighted performance conditions, which are operational efficiency and capital efficiency metrics related to the retail business and the platform business, the Group's retail business revenue and Group's retail business earnings before tax for the financial year ending December 2017, and financial year ending December 2018 respectively.

The number of awards issued, adjusted to reflect the achievement of the performance conditions, will then vest during 2016 for the 2013 LTIP, 2017 for the 2014 LTIP, 2018 for the 2015 LTIP and 2019 for the 2016 LTIP. Full vesting will only therefore occur where exceptional performance levels have been achieved and significant shareholder value created. An award will lapse if a participant ceases to be employed within the Group before the vesting date.

A summary of the status of the LTIP as at 27 November 2016 and changes during the year is presented below:

| | Number of Share Awards 27 November 2016 | Number of Share Awards 29 November 2015 |
|---|--|--|
| Outstanding at the beginning of the period | 6,076,621 | 5,087,848 |
| Granted during the period | 1,490,029 | 988,773 |
| Exercised during the period | (4,415,040) | — |
| Outstanding at the end of the Period | 3,151,610 | 6,076,621 |

There were no awards exercisable as at 27 November 2016 (2015: None).

The Group recognised an expense of £2.8 million (2015: £6.1 million) related to these awards in the Consolidated Income Statement during the year. The expectation of meeting the performance criteria, based upon internal budgets and forecasts, was taken into account when calculating this expense.

(f) Chairman's Share Matching Award

In 2013, the Group introduced the equity-settled Chairman's Share Matching Award, under which a one-off award of restricted shares was awarded to the Chairman, Lord Rose, on assuming the role of Chairman.

The award condition is based on a personal investment of a minimum of 400,000 shares and continued membership of the Board. The award vested in the current period, being three years from when the award was approved by the shareholders. There were no performance criteria to which vesting was subject.

These shares are restricted from being sold while he is on the Board and the shares are not allowed to be sold until the first anniversary of his ceasing to be a member of the Board.

A summary of the status of this Chairman's Share Matching Award as at 27 November 2016 and changes during the year is presented below:

| | Number of Share Awards 27 November 2016 | Number of Share Awards 29 November 2015 |
|--|--|--|
| Outstanding at the beginning of the period | 452,284 | 452,284 |
| Exercised during the period | (452,284) | — |
| Outstanding at the end of the period | — | 452,284 |

The Group recognised an expense of £0.1 million (2015: £0.4 million) related to this award in the Consolidated Income Statement during the year.

(g) Growth Incentive Plan

In 2014, the Group introduced an equity-settled growth incentive plan ("GIP"), under which nil cost shares were conditionally awarded to certain Executive Directors.

The final number and proportion of awards expected to vest will depend on achievement of a performance condition, being the growth in the Company's share price relative to the growth in the FTSE 100 Share Index over a five-year performance period.

These awards will vest in 2019. An award will lapse if a participant ceases to be employed within the Group before the vesting date.

4.10 Share Options and Other Equity Instruments (continued)

Performance will be assessed based on the three-month average share price of the Company and the FTSE 100 Share Index at the end of the performance period in comparison to the three-month average share price of the Company and the FTSE 100 Share Index prior to the start of the performance period.

In determining the fair value of the awards granted, a unique Monte Carlo model was used with the following inputs:

| | |
|---------------------------------------|----------------------------|
| Weighted average share price | £3.19 |
| Value of FTSE 100 index | 6,389.25 |
| Expected correlation | 29% |
| Expected volatility of Company | 40% |
| Expected volatility of FTSE 100 index | 16% |
| Weighted expected life – years | 5.0 |
| Risk-free rate | 1.96% |
| Expected dividend yield | 0% |
| Valuation model | Monte Carlo Pricing |

Expected correlation was determined with reference to the historic share price correlation of the shares in the Company and the FTSE 100 Index over a period commensurate with the terms of the award (i.e. five years).

Expected volatility of the Company was determined by comparing the Company to others of a similar size or which operate in a similar industry. Expected volatility of the FTSE 100 Index was determined by reference to its historic volatility over a period commensurate with the terms of the award (i.e. five years). Volatility is a key estimate in determining the fair value of the GIP award, as the overall charge is most sensitive to changes in this assumption. Management have had regard to an appropriate range of alternative volatility assumptions, and concluded that a change in the volatility within this range would not have a material impact on the financial statements.

The use of the Monte Carlo model and calculation of the associated input parameters requires judgement. Therefore management obtained professional advice to assist in determining the fair value of the awards granted.

A summary of the GIP as at 27 November 2016 and changes during the year is presented below:

| | Number of Share Awards |
|--|---------------------------|
| Outstanding at 30 November 2014 | 6,000,000 |
| Granted during the year | — |
| Outstanding at 29 November 2015 | 6,000,000 |
| Granted during the year | — |
| Outstanding at 27 November 2016 | 6,000,000 |

There were no awards exercisable as at 27 November 2016 (2015: None).

The Group recognised an expense of £1.2 million (2015: £1.3 million) related to these awards in the Consolidated Income Statement during the year. The expectation of meeting the performance criteria was taken into account when calculating this expense.

(h) Share Incentive Plan

In 2014, the Group introduced the Ocado Share Incentive Plan (“SIP”). This HMRC approved scheme provides all employees, including Executive Directors, the opportunity to receive and invest in Company shares. All SIP shares are held in a SIP Trust, administered by Yorkshire Building Society.

There are two elements in the plan – the Buy As You Earn (“BAYE”) arrangement and the Free Share Award. Under the BAYE, participants can purchase shares in the Company (“Partnership Shares”) each month using contributions from pre-tax pay, subject to an upper limit. For every seven shares purchased, the Company gifts the participant one free share (“Matching Shares”).

Under the Free Shares Award, shares are given to eligible employees, as a proportion of their annual base pay, subject to a maximum. Eligible employees are those with six months’ service as at the grant date.

For Partnership Shares, eligible employees are those with three months’ service. Partnership shares can be withdrawn from the Plan Trust at any time; however, Matching Shares and Free Shares are subject to a three-year holding period, during which continuous employment within the Group is required. The Matching Shares will be forfeited if any corresponding Partnership Shares are removed from the Plan Trust within this three-year period, or if the participant leaves Ocado.

Notes to the Consolidated Financial Statements

4.10 Share Options and Other Equity Instruments (continued)

A summary of the status of the SIP as at 27 November 2016 and changes during the year is presented below:

| | Partnership Shares | Matching Shares | Free Shares | Number of Share Awards Total |
|----------------------------------|-----------------------|--------------------|----------------|------------------------------------|
| Outstanding at 30 November 2014 | 52,714 | 7,189 | 383,089 | 442,992 |
| Awarded during the period | 139,790 | 19,968 | 452,018 | 611,776 |
| Forfeited during the period | — | (2,661) | (88,642) | (91,303) |
| Released during the period | (19,346) | (46) | (2,459) | (21,851) |
| Outstanding at 29 November 2015 | 173,158 | 24,450 | 744,006 | 941,614 |
| Unrestricted at 29 November 2015 | 173,158 | — | 654 | 173,812 |

| | Partnership Shares | Matching Shares | Free Shares | Number of Share Awards Total |
|---|-----------------------|--------------------|------------------|------------------------------------|
| Outstanding at 29 November 2015 | 173,158 | 24,450 | 744,006 | 941,614 |
| Awarded during the period | 195,565 | 27,856 | 693,341 | 916,762 |
| Forfeited during the period | — | (6,278) | (132,914) | (139,192) |
| Released during the period | (50,429) | (852) | (10,703) | (61,984) |
| Outstanding at 27 November 2016 | 318,294 | 45,176 | 1,293,730 | 1,657,200 |
| Unrestricted at 27 November 2016 | 318,294 | — | 1,909 | 320,203 |

In the year, the Group recognised an expense of £0.6 million (2015: £0.3 million) related to these awards. The expectation of meeting the holding period was taken into account when calculating this expense.

4.11 Capital Management

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

The Board closely manages trading capital, defined as net assets plus net debt^A. Net debt is calculated as total debt (obligations under finance leases and borrowings as shown in the Consolidated Balance Sheet), less cash and cash equivalents. The Group's net assets at the end of the period were £262.4 million (2015: £241.9 million) and it had net debt of £164.9 million (2015: £127.0 million).

The main areas of capital management revolve around working capital management and compliance with externally imposed financial covenants. The Group's objectives when managing capital are to safeguard its ability to continue as a going concern and balance the needs of the Group to grow, whilst operating with sufficient headroom within its bank covenants.

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

In the previous year the three-year £100 million revolving facility was extended by a further two years and the amount of the facility was increased to £210 million. As at 27 November 2016, £52.5 million of the facility had been utilised. The Group regularly reviews its financing arrangements. Throughout the period, the Group has complied with all covenants imposed by lenders. In addition, a key aspect of capital management was the strategic operating agreement with Morrisons and the operation of MHE JVCo, a company jointly owned with Morrisons, discussed in Note 5.4.

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

