



OCADO RETAIL LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE
52 WEEK PERIOD 3 DECEMBER 2018 TO 1 DECEMBER 2019
COMPANY NUMBER 03875000

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Company Information

Directors

Melanie Smith
Niall McBride
Lawrence Hene
Stuart Machin
Stephen Rowe
Tim Steiner
Duncan Tatton-Brown
Eoin Tonge

Company number 03875000

Registered office

Apollo Court
2 Bishops Square
Hatfield Business Park
Hatfield
Hertfordshire
United Kingdom
AL10 9EX

Independent auditor

Deloitte LLP
Statutory Auditor
1 New Street Square
London
United Kingdom
EC4A 3HQ

Strategic Report

The Directors present their strategic report of Ocado Retail Limited (the "Company") for the 52 week period 3 December 2018 to 1 December 2019.

Principal activities

The Company was incorporated on 11 November 1999 and was a wholly-owned subsidiary of Ocado Holdings Limited up until August 2019. In August 2019 Marks and Spencer Holdings Limited acquired a 50% stake in Ocado Retail Limited to form a new 50:50 joint venture with Marks and Spencer Holdings Limited and Ocado Holdings Limited. Management has concluded that Ocado Holdings still controls Ocado Retail Limited, since it holds 50.0% of the voting rights of the company and an agreement signed by the shareholders grants the Ocado Group determinative rights, after agreed dispute-resolution procedures in relation to the approval of the Company's business plan and budget and the appointment and removal of the Company's Chief Executive Officer who is responsible for directing the relevant activities of the business. Thus under IFRS 10 Consolidated Financial Statements the Company's controlling party is Ocado Holdings Limited, a company incorporated in the United Kingdom.

The principal activity of the Company is the retailing of products to customers through the ocado.com and ocadozoom.com websites and owning supplier relationships.

Financial review

For the period to 1 December 2019 the Company achieved significant sales growth in a highly challenging and competitive grocery environment.

Revenue grew to £1,573.4 million (2018: £1,428.2million) supported by improvements to the Company's proposition to customers and an increase in the number of active customers in the period. These factors drove strong order growth to the current average orders of 325,000 (2018: 296,000) per week at the period end. Gross profit of 29% was consistent with the prior period at £454.4 million (2018: £414.3 million).

Other income increased to £64.2 million (2018: £55.6 million). The Company has grown income from media-related activities ahead of the rate of increase in revenue as it increasingly engages its suppliers in media opportunities on its customer interfaces (including website, mobile apps and mobile websites).

The operating loss for the period before exceptional items was £8.9 million (2018: £6.9 million profit). Distribution costs and administrative expenses included costs for both the Ocado picking and delivery operations which are recharged from another Ocado Group entity.

Net finance costs were £10.9 million (2018: £4.4 million). Of this balance £2.4m (2018: £4.4m) represents finance costs on balances due to Ocado Group entities.

Net loss before tax of the Company amounted to £19.7 million (2018: £2.5 million profit).

The Company held £32.9 million of cash and cash equivalents at the period end (2018: £20.6 million).

Key performance indicators

The following table sets out a summary of selected unaudited operating information for 2019 and 2018.

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

	Period ended 1 December 2019	Period ended 2 December 2018	Variance %
Gross Sales (£m) ¹	1,697.8	1,541.6	10.1%
EBITDA (£m)	6.4	6.9	-7.2%
Average orders per week	325,000	296,000	9.8%
Average order size (£) ²	106.30	106.85	-0.5%
Average deliveries per Van per week	196	194	1.0%

¹ Note 2.3

² Average retail value of goods a customer receives (including VAT and delivery charge and including standalone orders) per order.

The Company is making grocery shopping quicker, simpler and more personal through a combination of unbeatable range, effortless convenience and fair value.

Strategic Report (continued)

Key performance indicators (continued)

Order accuracy and orders delivered on time or early remained at what we believe to be industry-leading levels of 99.0% (2018: 98.8%) and 95.0% (2018: 94.8%) respectively.

Future Developments

From September 2020, customers will be able to buy M&S food and drink as well as certain items from the M&S clothing range at Ocado.com – the first time the full M&S Food range will be available online to UK shoppers, and together with a full supermarket assortment of global, popular and artisan brands.

The Company has maintained its double-digit growth despite the fire at Andover, and is well placed for that to continue next period.

Principal risks and uncertainties

The Company has identified the following principal risks and uncertainties facing it which the Board considers to be material to the development, performance, position or future prospects of the Company. These, together with the associated mitigations, where applicable, are below. These risks and uncertainties do not comprise all of the risks associated with the Company and are not set out in any order of priority. Additional risks and uncertainties currently not known to the Directors and/or which the Directors believe to be less material may also have a material adverse effect on the Company's business, financial condition or future prospects.

Uncertainties in wider economy

The Company is exposed to potential negative changes in the global economic and geopolitical environment, including as a result of COVID-19 and Brexit. This risk is managed through continuous monitoring of the economic environment and regulatory changes, including ongoing engagement with regulators and external bodies, to assess the potential impact and mitigate accordingly.

Reputational damage

Owing to a number of factors, there is a risk of decline to the high customer service levels which customers are accustomed to. The Board maintains oversight of the key indicators of Company operations including service delivery along with ongoing review of the performance of drivers.

Further, there is the potential risk to maintain a retail proposition which appeals to a broad customer base. The Company continues to refine and monitor value perception and competitive pricing as well as develop and grow both its range and supplier base.

Technology risk

Established systems, processes, controls are structured and tested to ensure reliable and secure operations for Ocado Retail Limited. The Company remains subject to an ongoing risk of cyber-attack or data breach that could result in business disruption. The Data Protection Officer also supports the Company to oversee its GDPR compliance programme.

Legal and regulatory risk

The Company could be negatively impacted from non-compliance with regulations and legislation. The risk is mitigated through the implementation of policies and procedures and mandatory training to appropriate colleagues to ensure compliance with regulations. Experienced legal, food and product technology professionals and health and safety experts also monitor compliance against policies and procedures to alleviate the risk of a food or product safety incident.

Covid-19

At the beginning of the COVID-19 outbreak, in March 2020, retail demand increased significantly. Ocado Retail Limited has adapted its platform rapidly in order to meet unprecedented demand, and is now delivering significantly more groceries to households than ever before. The Company has increased capacity to support the level of demand with customer fulfilment centres (CFCs) operating at their peak efficiencies to date. The Company is delivering over 40% more groceries in the United Kingdom than before the impact of COVID-19.

Operating the business safely for employees and customers has been the number one priority. Temperature monitoring is being undertaken at all CFCs and spokes, and frontline employees are being tested regularly for COVID-19.

Although the long-term shift towards online grocery is expected to accelerate post-pandemic, there remain many uncertainties about the length of the crisis, its long-term effect on customers' disposable incomes, and customers' reactions immediately following the passing of the pandemic.

To date the Company has experienced no material delays in the delivery of future CFCs.

Strategic Report (continued)

S172 Statement

A director of a company must act in the way they consider, in good faith, would most likely promote the success of the company for the benefit of its members as a whole, taking into account the factors as listed in section 172 of the Companies Act 2006.

All Board decisions are made with the Company's success at the forefront, which is ultimately for the long-term benefit of the Company's shareholders. Both shareholders have representation on the Board and the Company has an ongoing dialogue with its shareholders on key business issues.

Engagement with employees and other stakeholders.

Employees

The Company's employees receive updates on the business' performance and strategy through regular business meetings and updates via the intranet. Employees are encouraged to share their views and ideas with senior management and the Board.

Suppliers

The Company maintains a supplier application website to aid the retail listing process and thereby make Ocado Retail Limited more accessible for Small to Medium-sized Enterprises (SMEs). The Company takes seriously its willingness to help nurture and support new and innovative brands.

The Company has processes in place to prevent and eradicate modern slavery in its supply chain. In 2019 the Company became a project sponsor of Stronger Together, a multi-stakeholder business-led initiative aiming to reduce modern slavery and other hidden third party exploitation of workers. Further details are available in the Company's 2019 Modern Slavery Statement, which is available online.

All of the Company's suppliers are required to comply with the Company's Responsible Sourcing Code of Practice which requires them to provide good working conditions, respect workers' human rights, and be subject to appropriate ethical monitoring. The Company's suppliers are also considered as part of the Company's annual Grocery Supplier Code of Practice (GSCOP) report.

Customers

The Company continually engages with its customers in a number of ways in order to receive feedback on the service, including surveys, feedback received through our contact centre, press engagement, social media activities and customer marketing and communications.

Community

The Company supports employees across the UK to make a difference to a local charity that matters to them through a matched fundraising policy

The Company also sponsors WRAP in the amount of £100k per annum to run education programmes for schools to educate children on food waste and recycling.

Through the Company's "Donate Food with Ocado" scheme it donated a further 76 tonnes of fresh and ambient food surplus to food banks and charities demonstrating its commitment to strengthening food partnerships in the past 12 months. Since the scheme launched in December 2014, the Company has donated over 256 tonnes of food.

Approved by the Board and signed on its behalf by:



Niall McBride
Director

Date 24 August 2020

Directors' Report

The Directors present their report and the audited financial statements of Ocado Retail Limited (the "Company") for the 52 week period ended 1 December 2019.

Board of Directors

The Directors of the Company who were in office during the period and up to the date of signing the financial statements were:

Tim Steiner
Duncan Tatton-Brown
Melanie Smith (appointed 05 August 2019)
Lawrence Hene (appointed 05 August 2019)
Stephen Rowe (appointed on 05 August 2019)
Niall McBride (appointed 13 January 2020)
Carolyn Bane (appointed on 05 August 2019 and resigned on 1 January 2020)
Luke Jensen (resigned on 05 August 2019)
Neill Abrams (resigned on 05 August 2019)
Mark Richardson (resigned on 05 August 2019)
Stuart Machin (appointed 05 August 2019)
Eoin Philip Tonge (appointed 24 June 2020)

Political contributions

No political donations were made by the Company to any political party, organisation or candidate during the period (2018: £nil).

Directors' interests

The Directors did not have beneficial interests in the shares of the Company at the end of the period. The Directors' beneficial interests are disclosed in full in the annual report and financial statements of Ocado Group plc and Marks and Spencer Holdings Limited. Copies of those financial statements for Ocado Group can be obtained from its registered office, which is Buildings One & Two, Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9UL, or alternatively from its corporate website www.ocadogroup.com. Copies of those financial statements from Marks and Spencer Holdings will be available from its registered office which is Waterside House, 35 North Wharf Road, London, United Kingdom, W2 1NW.

Directors' insurance and indemnities

The ultimate parent of one of the Company's shareholders, Ocado Group plc, maintains directors' and officers' liability insurance cover for its Directors and officers as permitted under the Company's Articles and the Companies Act 2006. Such insurance policies cover the Directors and officers of Ocado Group plc and of each of its group undertakings, including the Company. These insurance policies were renewed during the period and remain in force. The Company also indemnifies the Directors and officers under an indemnity deed with each Director or officer which contains provisions that are permitted by the director liability provisions of the Companies Act 2006 and the Company's Articles. An indemnity deed is usually entered into by a Director or officer, and the Company at the time of their appointment to the Board. Qualifying third party indemnity provisions (as defined by section 234 of the Companies Act 2006) were in force during the period and remain in force for the benefit of the Directors, and any officer, of the Company or of any associated company.

Research and development and future developments

No research and development is undertaken by this entity.

The Company's likely future developments including its strategy are described in the Strategic Report on pages 2 to 4.

Risk management

The Company's risk management policies for managing financial risk to the extent material to assessing the financial performance or position of the Company are summarised in the principal risks and uncertainties section of the Strategic Report.

Results and dividends

The Company's results for the period are set out in the Statement of Comprehensive Income on page 11. The Directors do not propose to pay a dividend for the period (2018: £nil).

Post balance sheet events

Events occurring after the balance sheet date that affect the Company will be disclosed in note 5.5 to the financial statements.

Employees

Creating an environment that is inclusive to everyone irrespective of their gender, age, race, disability, sexual orientation, or religion is one of the Company's key priorities. We have an ongoing commitment to continue to develop a diverse workforce and a culture that celebrates all employees.

Applications for employment by all individuals, including those with a disability, are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and appropriate training is arranged. It is the policy of the company that the training, career development and promotion of all employees should, as far as possible, be identical.

Staff engagement is one of the Company's key priorities, the Company recently conducted an employee survey to provide an informed picture of how colleagues feel about the business and 71% of employees took part in this period's employee survey.

Financial Risks and Uncertainties

The risk management policies for managing financial risk of the Ocado Group, which includes the Company are discussed on the page of 48 to 52 of the Ocado Group PLC 2019 annual report, which does not form part of this report. The Company is a significant part of the retail segment of Ocado Group, so most of the risks detailed in that report are relevant to the company, and are managed by directors on a basis consistent with, and as part, of the Group structured risk management process. Note 5.6 gives details of the company's ultimate parent and from where the consolidated financial statement prepared in accordance with IFRS may be obtained.

Credit Risk

The Company monitors its receivables balances on an ongoing basis with any provision for impairments made as required.

Disclosure of information to the auditor

Each of the persons who is a director at the date of approval of this annual report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Approved by the Board and signed in its behalf by



Niall McBride

Director

Date 24 August 2020

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial period. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101"). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the results of the company for that period.

In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

Independent Auditor's Report to the Members of Ocado Retail Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Ocado Retail Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 1 December 2019 and of its loss for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity, and
- the related notes 1 to 5.6

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

M. R. Lee-Amies

Mark Lee-Amies FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, UK

Date: 24 August 2020

Statement of Comprehensive Income
for the 52 weeks ended 1 December 2019

	Notes	52 weeks ended 1 December 2019 £m	52 weeks ended 2 December 2018 £m
Revenue	2.2, 2.3	1,573.4	1,428.2
Cost of sales		(1,119.0)	(1,013.9)
Gross profit		454.4	414.3
Other income		64.2	55.6
Distribution costs		(449.1)	(401.8)
Administrative expenses		(78.8)	(61.2)
Operating (loss)/profit before exceptional items	2.4	(9.3)	6.9
Exceptional items	2.7	0.4	-
Operating (loss)/ profit		(8.9)	6.9
Finance income	4.1	0.1	-
Finance costs	4.1	(10.9)	(4.4)
(Loss)/ profit before taxation		(19.7)	2.5
Taxation	2.6	3.3	(0.3)
(Loss)/profit for the period and total comprehensive (expense)/income		(16.4)	2.2

All amounts are derived from continuing operations.

Non-GAAP measure: Earnings before interest, taxation, depreciation, amortisation, impairment and exceptional items (EBITDA)

	Notes	52 weeks ended 1 December 2019 £m	52 weeks ended 2 December 2018 £m
Operating (loss)/ profit		(8.9)	6.9
Adjustments for:			
Exceptional items	2.7	(0.4)	-
Depreciation of property, plant and equipment	3.3	4.9	-
Depreciation of right-of-use assets	3.4	10.8	-
EBITDA		6.4	6.9

Balance Sheet
as at 1 December 2019

	Notes	1 December 2019 £m	2 December 2018 £m
Non-current assets			
Intangible assets	3.2	0.3	-
Property, plant and equipment	3.3	16.4	-
Deferred tax asset	2.6	10.4	7.1
Right-of-use assets	3.4	235.1	-
		262.2	7.1
Current assets			
Inventories	3.5	47.9	48.2
Trade and other receivables	3.6	229.6	486.2
Cash and cash equivalents	3.7	32.9	20.6
Asset held for sale	3.8	4.2	-
		314.6	555.0
Total assets		576.8	562.1
Current liabilities			
Trade and other payables	3.9	(303.5)	(495.4)
Lease liabilities	3.10	(24.1)	-
		(327.6)	(495.4)
Net current assets		(13.0)	59.6
Non-current Liabilities			
Lease liabilities	3.10	(213.8)	-
Provisions	3.11	(7.6)	-
		(221.4)	-
Net assets		27.8	66.7
Equity			
Share capital	4.2	-	-
Share premium	4.2	360.3	360.3
Other reserves	4.2	9.2	9.2
Retained earnings		(341.7)	(302.8)
Total equity		27.8	66.7

The financial statements on pages 11 to 35 were authorised for issue by the Board of Directors and signed on its behalf by:



Niall McBride
Director
Ocado Retail Limited
Company Registration Number 03875000 (England and Wales)
Date 24 August 2020

Statement of Changes in Equity
for the 52 weeks ended 1 December 2019

	Share capital £m	Share premium £m	Other reserves £m	(Accumulated losses)/retained earnings £m	Total equity £m
Balance at 4 December 2017	-	360.3	9.2	(305.0)	64.5
Profit for the period and total comprehensive income	-	-	-	2.2	2.2
Balance at 2 December 2018	-	360.3	9.2	(302.8)	66.7
Adjustment arising from Group restructuring ¹	-	-	-	(22.5)	(22.5)
Loss for the period and total comprehensive income	-	-	-	(16.4)	(16.4)
Balance at 1 December 2019	-	360.3	9.2	(341.7)	27.8

¹ In August 2019, Ocado Holdings Limited, the Company's immediate parent undertaking, sold 50.0% of its interest in Ocado Retail Limited to Marks and Spencer Group plc. As part of this transaction, a number of intra-Group balances were waived. These were treated as capital contributions between the relevant companies, and any gains or losses were recognised directly in retained earnings.

Notes to the financial statements

Section 1- Basis of preparation

General information

Ocado Retail Limited (hereafter "the Company") is a private company limited by shares, and incorporated and domiciled in the United Kingdom. The address of its registered office is Apollo Court, 2 Bishops Square, Hatfield Business Park, Hatfield, Hertfordshire, AL10 9EX.

The financial period represents the 52 weeks ended 1 December 2019. The prior financial period represents the 52 weeks ended 2 December 2018.

Basis of preparation

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 'Application of Financial Reporting Requirements' issued by the Financial Reporting Council. Accordingly, these financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101").

The financial statements contain information about Ocado Retail Limited as an individual company and do not contain consolidated financial information about its group. Ocado Group plc is the parent undertaking of the largest and smallest group of undertakings to consolidate these financial statements at 1 December 2019. Note 5.6 gives details of the company's ultimate parent and form where the consolidated financial statement prepared in accordance with IFRS may be obtained. The Company had adopted the intermediate parent exemption under section 400 of the Companies Act 2006, whereby it is not required to prepare consolidated financial statement as the ultimate parent company prepares publicly available consolidated financial statements.

The financial statements are presented in sterling, rounded to the nearest hundred thousand unless otherwise stated. They have been prepared under the historical cost convention. The financial statements have been prepared on the going concern basis, which assumes that the Company will continue to be able to meet its liabilities as they fall due for the foreseeable future.

Exemptions

After considering the Application Guidance to FRS 100, the Company has taken advantage of the disclosure exemptions permitted under FRS 101 given that it is included in the consolidated financial statements of Ocado Group plc. The consolidated financial statements are prepared under International Financial Reporting Standards (IFRSs) and International Financial Reporting Standards Interpretation Committee (IFRIC) interpretations as endorsed by the European Union ("IFRS-EU"). The disclosure exemptions adopted, where applicable, are in relation to share-based payment arrangements, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective and certain disclosures in respect of revenue from contracts with customers and certain related party transactions.

Where relevant, equivalent disclosures have been given in the consolidated financial statements of Ocado Group plc that can be obtained from its registered office, which is Buildings One & Two, Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9UL, or alternatively from its corporate website www.ocadogroup.com.

New Standards, Amendments and Interpretations Adopted by the Company

In the current period, the Company adopted IFRS 16 "Leases" for the first time.

Due to the transition method chosen by the Company, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standard. Rather, reclassifications and any adjustments arising from the adoption of IFRS 16 have been recognised in the opening equity balances at 3 December 2018.

New standards, amendments and interpretations issued that are effective but not material to the Company:

The Company has also considered the following new standards, interpretations and amendments to published standards that are effective for the Company for the financial period beginning 3 December 2018 and concluded that they are either not relevant to the Company or that they would not have a significant impact on the Company's financial statements:

Standard	Description	Effective date
IFRS 2	Share-based Payment (amendments)	1 January 2018
IFRS 4	Insurance Contracts (amendments)	1 January 2018
IAS 40	Investment Property (amendments)	1 January 2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
Annual Improvements to IFRSs 2014-2016 Cycle	Amendments to IFRS 1, IFRS 12 and IAS 28	1 January 2018

Notes to the financial statements (continued)

Section 1- Basis of preparation (continued)

Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out in the relevant notes to these financial statements. Accounting policies not specifically attributable to a note are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ("the functional currency"). Sterling is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, except when deferred in equity as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within finance income or finance costs. All other foreign exchange gains and losses are presented in the income statement within operating profit.

Section 1.1 – Basis of preparation

Critical estimates, judgements and assumptions

The preparation of the Company financial statements requires the use of certain judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key estimation uncertainties

Cost of sales

At the period end the Company is required to estimate supplier income due from annual agreements for volume rebates, which span across the period-end date. Confirmation of some amounts due is often only received three to six months after the period end.

Recognition of deferred tax assets

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Recognition, therefore, involves estimates regarding the prudent forecasting of future taxable profits of the business and in applying an appropriate risk adjustment factor.

Significant judgements

No judgements have been made in the process of applying the Company's accounting policies, other than those involving estimations, that have had a significant effect on the amounts recognised in the financial statements.

1.2 Going concern basis

Accounting standards require that directors satisfy themselves that it is reasonable for them to conclude whether it is appropriate to prepare financial statements on a going concern basis. There has been no material uncertainty identified which would cast significant doubt upon the Company's ability to continue using the going concern basis of accounting for the 12 months following the approval of these financial statements.

The Company monitors rolling forecasts of liquidity requirements based on a range of precautionary scenarios to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its committed borrowing facilities at all times so that the Company does not contribute to breaching borrowing limits or covenants (where applicable) on any of its borrowing facilities. The Company is cash generative and has been so through the COVID-19 crisis. Given the net liability position it also relies on support from its shareholders Ocado Group Plc and Marks and Spencer Group Plc.

After making appropriate enquiries and having considered the business activities as set out in the Strategic Report on page 2, the facts described above, the impacts of the COVID-19 pandemic and the Company's principal risks and uncertainties, the Directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements have been prepared on the going concern basis.

Notes to the financial statements (continued)

Section 1- Basis of preparation (continued)

1.3 Initial adoption of IFRS 16 "Leases"

IFRS 16 "Leases" replaces IAS 17 "Leases". The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-Balance-Sheet model. The standard has an effective date of 1 January 2019 but the Company has decided to adopt it early as it will provide more reliable and useful information to investors and other stakeholders and allow the Company to remain more readily comparable with competitors who will be adopting the standard during the 2019/20 reporting season.

IFRS 16 has been applied using the modified retrospective approach with the date of initial application of 3 December 2018. Prior periods have not been restated.

On adoption of IFRS 16 the Company has recognised lease liabilities in relation to leases which had previously been classified as operating leases. These liabilities were measured at the present values of the remaining lease payments, discounted using the incremental borrowing rates at 3 December 2018.

For leases previously classified as finance leases, the right-of-use assets and lease liabilities are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

Practical expedients applied

The Company has used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases:

- applying a single discount rate to a portfolio of leases with similar characteristics;
- relying on previous assessments as to whether leases are onerous as an alternative to performing an impairment review - there were no onerous contracts as at 3 December 2018;
- excluding initial direct costs from measuring right-of-use assets at the date of initial application; and
- using hindsight when determining a lease term if the contract contains options to extend or terminate the lease.

The Company has applied the exemption not to recognise the right-of-use assets and liabilities for leases with a remaining lease term of less than twelve months from the date of initial application.

The Company has elected to use exemptions allowed for low value items and short-term leases.

Measurement of lease liabilities

The following is a reconciliation of total finance lease commitments disclosed at 2 December 2018 with the lease liabilities recognised at 3 December 2018:

Finance lease liabilities recognised under IAS 17 at 2 December 2018	-
Finance lease liabilities recognised under IFRS 16 at 3 December 2018	85.3
Representing:	
Current lease liabilities	4.9
Non-current lease liabilities	80.4
	85.3

Notes to the financial statements (continued)

Section 1- Basis of preparation (continued)

1.3 Initial adoption of IFRS 16 "Leases" (continued)

Measurement of right-of-use assets

The Company has elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition, including unamortised lease incentives.

Adjustments recognised on the Balance Sheet on 3 December 2018

The following is a reconciliation of the financial statement line items from IAS 17 to IFRS 16 at 3 December 2018:

	Notes	Carrying amount at 2 December 2018 £m	Reclassification £m	Re-measurement £m	Carrying amount at 3 December 2018 £m
Right-of-use assets	3.4	-	-	82.8	82.8
Lease liabilities	3.10	-	-	(85.3)	(85.3)
Provisions	3.11	-	-	(1.8)	(1.8)
Receivables under finance leases	3.12	-	-	3.6	3.6

The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets of £82.8 million, receivables under finance leases of £3.6 million, lease liabilities of £85.3 million and dilapidations provisions of £1.8 million.

IFRS 16 requires entities to make certain judgements and estimations. Management has exercised judgement around the use of extension and break options for leases.

Where the Company has the option to extend or terminate a lease early, management has used its judgement to determine whether or not the option is reasonably certain to be exercised. Management has considered all facts and circumstances including past practice and current and future business strategy and any costs that could be incurred on use of the option in exercising its judgement.

The Company has elected to use exemptions allowed for low value items and short-term leases.

Section 2 – Results for the period

2.1 Profit before taxation

Accounting policies

Revenue

The Company follows the principles of IFRS 15 "Revenue from Contracts with Customers", in determining appropriate revenue recognition policies.

Revenue represents the transaction price that the Company expects to be entitled to in return for delivering the goods or services to its customers. The value recognised in any period is based on judgement of when the customer is able to benefit from the goods or services and an assessment of the progress made towards completely satisfying each obligation.

Identification of the Performance Obligations

In a typical contract there is one performance obligation which is to deliver goods ordered online to the customer at the scheduled time and to the agreed address. "Ocado Smart Pass", the Company's discounted pre-pay membership scheme, is a separate contract with a customer and has a separate single performance obligation which is to provide delivery services for an agreed period of time. The Company is able to apply the practical expedient allowed in the standards to apply the standard requirements to a portfolio of contracts, rather than individual contracts, as it believes the characteristics of each sale are similar and the effects on the financial statements of doing so would not differ materially from applying the standard to individual contracts.

Notes to the financial statements (continued)

Section 2 – Results for the period (continued)

2.1 Profit before taxation (continued)

Determining the Transaction Price

Customers pay in full at point of sale. The transaction price is based on the aggregation of all order values shown net of any material adjustment for expected returns or expected future redemption of marketing vouchers in accordance with IFRS 15 guidance on variable consideration. Standard delivery charges and carrier bag receipts are included in the transaction price. Smart Pass transaction price is as per the contracted value of the membership for the agreed period of delivery services.

Allocation of Transaction Price to the Performance Obligations

Each contract has a single performance obligation and so all the transaction price is assigned to that single obligation. At the end of each reporting period management will review and adjust for elements of variable consideration such as expected refunds or expected voucher redemptions.

Revenue Recognition

Revenue from online grocery orders is recognised at a point in time when the customer obtains control of the goods, which for deliveries performed by the Company occurs when the goods are delivered to and have been accepted at the customer's home. For goods which are delivered by third party couriers, revenue is recognised when the items have been transferred to the third party for onward delivery to the customer. These are shown net of returns, relevant marketing vouchers/offers and value-added taxes. Relevant vouchers/offers include money-off coupons, conditional spend vouchers and offers such as buy three for the price of two. Revenue from Ocado Smart Pass is recognised over the duration of the membership on a time elapsed, straight-line basis.

Cost of sales

Cost of sales represents the cost of groceries and other products the Company sells, any associated licence fees which are driven by the volume of sales of specific products or product groups, including the branding and sourcing fees payable to Waitrose, adjustments to inventory and charges for transportation of goods from a supplier to a CFC.

Commercial income

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

Promotional allowances

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

Volume-related rebates

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

Uncollected commercial income

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

Distribution costs

Distribution costs are charged to the Company by Ocado Group entity. Distribution costs consist of all the costs incurred, excluding product costs, to the point of sale which is the customer's home or the third party courier. This includes the payroll-related expenses for the picking, dispatch and delivery of products sold to the point of sale, the cost of making those deliveries, including fuel, tolls, maintenance of vehicles, the operating costs of the properties required for the picking, dispatch and onward delivery operations and all associated depreciation, amortisation and impairment charges, call centre costs and payment processing charges.

Administrative expenses

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

Notes to the financial statements (continued)

Section 2 – Results for the period (continued)

2.1 Profit before taxation (continued)

Other income

Other income comprises the fair value of consideration received or receivable for advertising services provided by the Company to suppliers and other third parties on ocado.com. Income for advertising services is recognised over the particular time period for which the service is provided on an accruals basis. An adjustment is made at the period end to accrue the amount of income in relation to campaigns that may span the period end, however such adjustments are not typically material.

Exceptional items

Exceptional items, as disclosed on the face of the Income Statement, are items that due to their material and/or non-recurring nature have been classified separately in order to draw them to the attention of the reader of the financial statements and to avoid distortion of underlying performance. This facilitates comparison with prior periods to assess trends in financial performance more readily. The company applies judgement in identifying the significant non-recurring items of income and expense that are recognised as exceptional.

2.2 Revenue

Revenue is generated wholly within the United Kingdom and from a single class of business, being the Company's principal activity of grocery retailing. The Company is not reliant on any major customer for 10% or more of its revenue.

2.3 Gross sales

	52 weeks ended 1 December 2019	52 weeks ended 2 December 2018
	£m	£m
Revenue	1,573.4	1,428.2
VAT	97.9	89.8
Marketing vouchers	26.5	23.6
Gross sales	1,697.8	1,541.6

2.4 Operating (loss)/profit

	52 weeks ended 1 December 2019	52 weeks ended 2 December 2018
	£m	£m
Operating (loss)/profit is stated after charging/(crediting) the following:		
Cost of inventories recognised as an expense	1,106.3	997.9
Impairment of receivables	(1.4)	(1.0)
Net foreign exchange (gain)	(0.1)	(0.2)
Employment costs	10.6	-

During the period, the Company obtained the following services from its auditor:

	52 weeks ended 1 December 2019	52 weeks ended 2 December 2018
	£'000	£'000
Audit services		
- Audit of the Company's financial statements	226.0	99.7
	226.0	99.7

Notes to the financial statements (continued)

Section 2 – Results for the period (continued)

2.5 Employee information

During the period the average monthly number of employees was 326 being head office staff. Up until September 2019 and the prior period all employees were employed by an Ocado Group entity and the Company was recharged for its share of employment costs.

Other staff including warehouse, service delivery and other functions (including directors in the prior period), were employed by an Ocado Group entity and the Company was recharged for its share of employment costs.

Employment costs

	52 weeks ended 1 December 2019	52 weeks ended 2 December 2018
	£m	£m
Employment costs	9.4	-
Social security costs	0.8	-
Other pension costs	0.4	-
Total	10.6	-

	52 weeks ended 1 December 2019	52 weeks ended 2 December 2018
	£'000	£'000
Employment costs	9,400	-
Social security costs	800	-
Other pension costs	400	-
Total	10,600	-

Directors' remuneration is disclosed as follows:

Remuneration for qualifying services	83.4
Company pension contributions to defined contribution schemes	2.8

Remuneration disclosed above include amounts paid to the highest paid director of £42k and defined pension contributions of £Nil

2.6 Taxation

Accounting policies

The tax charge for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the tax is also recognised in other comprehensive income or directly in equity respectively.

Current taxation

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted by the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected, to be paid to the tax authorities.

Deferred taxation

Deferred tax is recognised using the balance sheet liability method on temporary differences arising between the tax base of assets and liabilities and their carrying amount in the financial statements. Deferred tax is calculated at the tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Recognition, therefore, involves judgement regarding the prudent risk-adjusted forecasting of future taxable profits of the business and in applying an appropriate risk-adjustment factor. The final outcome of some of these items may give rise to material profit and loss and/or cash flow variances. At the balance sheet date management has forecast that the Company would generate future taxable profits against which existing tax losses could be relieved. The carrying amount of deferred tax assets is reviewed at each balance sheet date. Deferred tax assets and liabilities are offset against each other when there is a legally enforceable right to offset current taxation assets against current taxation liabilities and it is the intention to settle these on a net basis.

Notes to the financial statements (continued)

Section 2 – Results for the period (continued)

2.6 Taxation

Taxation – Income statement

	52 weeks ended 1 December 2019 £m	52 weeks ended 2 December 2018 £m
Recognised in the income statement		
UK corporation tax on profit/ (loss):	-	-
Adjustments in respect of prior periods	-	(0.4)
Total current tax	-	(0.4)
Deferred tax:		
Changes in recoverable amounts of deferred tax assets	3.3	0.1
Origination and reversal of temporary differences	-	-
Total deferred tax	3.3	0.1
Income tax credit/ (charge)	3.3	(0.3)

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the Company as follows:

	52 weeks ended 1 December 2019 £m	52 weeks ended 2 December 2018 £m
(Loss) / profit before tax	(19.7)	2.5
Effective tax charge at the UK tax rate of 19% (2018: 19%)	(3.7)	0.5
Effect of:		
(Non-taxable) / non-deductible items	0.1	(0.8)
Temporary differences on which no deferred tax is recognised	0.3	(0.1)
Group relief surrendered / (claimed)	-	0.3
Adjustments in respect of prior periods	-	0.4
Income tax (credit)/ charge	(3.3)	0.3

Taxation – Balance sheet

	Tax losses £m	Accelerated Capital Allowances £m	Total £m
As at 3 December 2017	7.0	-	7.0
Tax losses recognised through the income statement	0.1	-	0.1
As at 2 December 2018	7.1	-	7.1
Effect of change in UK corporation tax rate			
Tax losses recognised through the income statement	3.1	0.2	3.3
As at 1 December 2019	10.2	0.2	10.4

Notes to the financial statements (continued)

Section 2 – Results for the period (continued)

2.6 Taxation (continued)

On 26 October 2015, the Finance (No.2) Act 2015 was substantively enacted and provided for a reduction in the main rate of corporation tax from 20% to 19% effective from 1 April 2017. On 6 September 2016, the Finance Act 2016 was substantively enacted and provided for a reduction in the main rate of UK corporation tax to 17% from 1 April 2020. In the March 2020 Budget the reduction in the corporation tax rate was withdrawn and it will now stay at 19%; the impact will be accounted for in the accounts for the period ended 29 November 2020.

As at 1 December 2019 the Company had approximately £62 million of unutilised tax losses (2018: approximately £47.6 million) available for offset against future profits. A deferred tax asset of £10.2 million (2018: £7.1 million) has been recognised in respect of £60.0 (2018: £41.7 million) of such losses, the recovery of which is supported by the expected level of future profits of the Company.

No deferred tax asset has been recognised in respect of the remaining £2.0 million (2018: £5.9 million) losses on the basis that their future economic benefit is uncertain given the unpredictability of future profit streams. All tax losses, both recognised and unrecognised, can be carried forward indefinitely.

No deferred tax asset is recognised on temporary differences of £nil (2018: £nil) relating to pension contributions.

2.7 Exceptional items

	52 weeks ended 1 December 2019	52 weeks ended 2 December 2018
	£m	£m
Andover CFC	(0.4)	-
Total exceptional credit	(0.4)	-

Andover CFC

In February 2019 a fire destroyed the Andover CFC, including the building, machinery and all inventory held on site. Costs of £5.7m were offset by insurance income of £6.1m.

Section 3 — Working capital

3.1 Operating assets and liabilities

Accounting policies

Inventories

Inventories comprise goods held for resale, fuel and other consumable goods. Inventories are valued at the lower of cost and net realisable value as provided in IAS 2 "Inventories". Cost is determined on a First In and First out basis. Goods held for resale and consumables are valued using the historical cost basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. It also takes into account slow-moving, obsolete and defective inventory. Fuel stocks are valued at calculated average cost. Costs include all direct expenditure and other appropriate attributable costs incurred in bringing inventories to their present location and condition. There has been no security granted over inventory unless stated otherwise.

The Company has a mix of grocery and non-food items within inventory which have different characteristics. For example, grocery lines have high inventory turnover, while non-food lines are typically held within inventory for a longer period of time and so run a higher risk of obsolescence. As inventories are carried at the lower of cost and net realisable value, this requires the estimation of the eventual sales price of goods to customers in the future.

Trade and other receivables

Trade receivables are non-interest bearing and are on commercial terms. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Other receivables are non-interest bearing and are recognised initially at fair value, and subsequently at amortised cost, reduced by appropriate allowances for estimated irrecoverable amounts.

Notes to the financial statements (continued)

Section 3 – Working Capital (continued)

3.1 Operating assets and liabilities (continued)

Provision for impairment of trade receivables

A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

Any provision made against an impaired receivable is recognised in the income statement within administrative expenses. Subsequent recoveries of amounts previously written off are credited against this same financial statement caption.

The outcome of an impaired receivable depends on future events which are by their nature uncertain. In assessing the likely outcome, management base their assessment on historical experience and other factors that are believed to be reasonable in the circumstances.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and short-term deposits with a maturity of three months or less at the date of acquisition. Cash at bank and in hand and short-term deposits are shown under current assets on the balance sheet. The carrying amount of these assets approximates to their fair value. They are therefore included as a component of cash and cash equivalents.

Financial liabilities and equity instrument

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that gives a residual interest in the assets of the Company after deducting all of its liabilities.

Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently at amortised cost, using the effective interest rate method.

3.2 Intangible assets

In certain circumstances, some assets are ready for use, but are not performing as intended by management. Development costs that relate to the enhancement or modifications of existing assets are capitalised until the asset is performing as intended by management. Management assesses the capitalisation of these costs by consulting the guidance outlined in IAS 38 "Intangible Assets" and exercises judgement in determining the qualifying costs. When unsure if the enhancement or modification costs relate to the development of the asset or are maintenance expenditure in nature, management treats the expenditure as if it were incurred in the research phase only in line with IAS 38 guidance.

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following conditions have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Notes to the financial statements (continued)

Section 3 – Working Capital (continued)

3.2 Intangible assets (continued)

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Internally generated assets consist primarily of costs relating to intangible assets which provide economic benefit independent of other assets, and intangible assets that are utilised in the operation of property, plant and equipment. These intangible assets are required for certain tangible assets to operate as intended by management. Management assesses each material addition of an internally generated asset and considers whether it is integral to the successful operation of a related item of hardware, can be used across a number of applications and therefore whether the asset should be recognised as property, plant and equipment. If the asset could be used on other existing or future projects it will be recognised as an intangible asset. For example, should an internally generated asset, such as the software code to enhance the operation of existing CFC equipment, be expected to form the foundation or a substantial element of future software development, it has been recognised as an intangible asset.

Estimation of Useful Life

The charge in respect of periodic amortisation is derived by estimating an asset's expected useful life and the expected residual value at the end of its life. Increasing an asset's expected life or its residual value would result in a reduced amortisation charge in the Income Statement.

The useful life is determined by management at the time the software is acquired and brought into use and is reviewed for appropriateness regularly. For computer software licences, the useful life represents management's view of the expected period over which the Company will receive benefits from the software.

For unique software products developed and controlled by Ocado Group, the life is based on historical experience with similar products as well as anticipation of future events which may affect their useful life, such as changes in technology.

Internally generated assets 3 - 15 years, or the lease term if shorter

Right to use land The estimated useful economic life, or the lease term if shorter

Other intangible assets 3 - 15 years, or the lease term if shorter

Impairment of Non-Financial Assets (Including Tangible Assets)

At each reporting date, the Company reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with an indefinite useful life are tested for impairment at least annually and whenever there is an indication at the end of a reporting period that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease and to the extent that the impairment loss is greater than the related revaluation surplus, the excess impairment loss is recognised in profit or loss.

Notes to the financial statements (continued)

Section 3 – Operating assets and liabilities (continued)

3.2 Intangible assets (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior periods. A reversal of an impairment loss is recognised immediately in profit or loss to the extent that it eliminates the impairment loss which has been recognised for the asset in prior periods. Any increase in excess of this amount is treated as a revaluation increase.

	Internally Generated Assets £m	Other Intangible Assets £m	Total Intangible Assets £m
Cost			
At 2 December 2018	-	-	-
Additions	0.2	-	0.2
Internal development costs capitalised	-	0.1	0.1
At 1 December 2019	0.2	0.1	0.3
Accumulated amortisation			
At 2 December 2018	-	-	-
At 1 December 2019	-	-	-
Net book value			
At 2 December 2018	-	-	-
At 1 December 2019	0.2	0.1	0.3

3.3 Property, Plant and Equipment

Accounting Policies

Property, Plant and Equipment

Property, plant and equipment excluding land are stated at cost less accumulated depreciation and any recognised impairment loss. Cost includes the original purchase price of the asset, any costs attributable to bringing the asset to its working condition for its intended use and major spares. An item of property, plant and equipment is recognised as an asset if it is probable that future economic benefits associated with the asset will flow to the entity, and the cost of the asset can be measured reliably.

In determining the cost of property, plant and equipment, certain costs that relate to the intangible element of an asset are separately disclosed within intangible assets (see note 3.2.) Management exercises judgement in reviewing each material addition of an asset and considers whether the intangible asset element can be used for other property, plant and equipment additions in the current or future periods.

Depreciation on items of property, plant and equipment is calculated on a straight-line basis from the date on which the item is brought into use, is charged to distribution costs and administrative expenses and is calculated based on the useful lives indicated below:

Freehold buildings and leasehold properties	30 years, or the lease term if shorter
Fixtures and fittings	5 – 10 years, or the lease term if shorter
Plant and machinery	3 – 20 years, or the lease term if shorter
Motor vehicles	2 – 7 years, or the lease term if shorter

Land is held at cost and not depreciated.

Assets in the course of construction are carried at cost less any recognised impairment loss. Cost includes professional fees and other directly attributable costs. Depreciation of these assets commences when the assets are ready for their intended use, on the same basis as other property assets.

Notes to the financial statements (continued)

Section 3 — Operating assets and liabilities (continued)

3.3 Property, Plant and Equipment (continued)

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Estimation of Useful Life

Depreciation is provided at rates estimated to write off the cost of the relevant assets less their estimated residual values by equal annual amounts over their expected useful lives. Residual values and expected useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period.

The charge in respect of periodic depreciation is derived by estimating an asset's expected useful life and the expected residual value at the end of its life. Increasing an asset's expected life or its residual value would result in a reduced depreciation charge in the Consolidated Income Statement. The useful lives of the Company's assets are determined by management at the time the asset is acquired and reviewed at least once a period for appropriateness.

Management also assesses the useful lives based on historical experience with similar assets as well as anticipation of future events which may affect their useful lives, such as changes in technology. A review of useful lives took place in the current period and no changes in useful lives was required.

	Land and Buildings £m	Fixtures, Fittings, Plant and Machinery £m	Total £m
Cost			
At 2 December 2018			
Additions	3.8	12.8	16.6
At 1 December 2019	3.8	12.8	16.6
Accumulated depreciation			
At 2 December 2018			
Charge for the period	(0.2)		(0.2)
At 1 December 2019	(0.2)		(0.2)
Net book value			
At 2 December 2018			
At 1 December 2019	3.6	12.8	16.4

Notes to the financial statements (continued)

Section 3 — Operating assets and liabilities (continued)

3.4 Right-of-use assets

Right-of-use assets are measured at cost, which is made up of the initial measurement of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the asset at the end of the lease, less any lease incentives received.

The Company depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use assets for impairment when such indicators exist.

The right-of-use assets are included in a separate line within non-current assets on the Balance Sheet.

	Land and buildings £m	Fixtures, fittings, plant and machinery £m	Motor vehicles £m	Total £m
Cost				
At 3 December 2017 and 2 December 2018	-	-	-	-
Recognised on adoption of IFRS 16	82.8	-	-	82.8
At 3 December 2018	82.8	-	-	82.8
Additions	97.7	39.3	37.0	174.0
Disposals	(6.7)	-	-	(6.7)
At 1 December 2019	173.8	39.3	37.0	250.1
Accumulated depreciation				
At 3 December 2017 and 2 December 2018	-	-	-	-
Charge for the period	(9.1)	(2.0)	(4.4)	(15.5)
Disposals	0.5	-	-	0.5
At 1 December 2019	(8.6)	(2.0)	(4.4)	(15.0)
Net book value				
At 2 December 2018	-	-	-	-
At 1 December 2019	165.2	37.3	32.6	235.1

3.5 Inventories

	1 December 2019 £m	2 December 2018 £m
Goods for resale	47.9	48.2

Notes to the financial statements (continued)

Section 3 — Operating assets and liabilities (continued)

3.6 Trade and other receivables

	1 December 2019	2 December 2018
	£m	£m
Trade receivables	52.2	41.8
Less: provision for impairment of trade receivables	(1.7)	(1.4)
Net trade receivables	50.5	40.4
Other receivables	13.9	1.2
Prepayments	2.3	2.3
Amounts due from group undertakings	142.1	417.8
Accrued income	20.8	24.5
	229.6	486.2

Included in trade receivables is £43.0 million (2018: £29.9 million) due from suppliers in relation to commercial and media income. Of this amount £8.1 million (2018: £8.4 million) to be invoiced to suppliers in relation to supplier funded promotional activity and £10.8 million (2018: £10.8 million) to be invoiced to suppliers in relation to volume-related rebate amounts. As at 3 January 2020 £2.6m million of accrued income has been invoiced.

Trade and other receivables at the period-end comprise mainly monies due from suppliers, which are considered of a good credit quality, as well as VAT receivables. The Company provides for doubtful receivables in respect of monies due from suppliers.

Amounts due from group undertakings are unsecured, interest free and are repayable on demand.

3.7 Cash and cash equivalents

	1 December 2019	2 December 2018
	£m	£m
Cash at bank and in hand	32.9	20.6

3.8 Asset held for sale

The asset held for sale of £4.2 million represents the carrying value of a UK property previously used in the Company's distribution network that it is in the process of selling. Unforeseen delays relating to certain elements of the planning permission submissions made by the vendor occurred, but the sale negotiations are well advanced and the Group are still committed to selling the property, with the sale expected to complete in 2020.

3.9 Trade and other payables

	1 December 2019	2 December 2018
	£m	£m
Trade payables	77.5	97.9
Accruals	44.3	41.9
Amounts due to group undertakings	177.4	352.0
Other taxation and social security	0.4	-
Deferred income	3.9	3.6
	303.5	495.4

Deferred income represents the value of delivery income received under the Ocado Smart Pass scheme allocated to future periods.

Amounts due to group undertakings are unsecured, interest free and are repayable on demand.

Notes to the financial statements (continued)

Section 3 — Operating assets and liabilities (continued)

3.10 Lease liabilities

The Company leases a number of properties, items of equipment and motor vehicles. The leases have varying terms, escalation clauses and renewal rights. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the Balance Sheet as a right-of-use asset and a lease liability.

As described in note 1.3, the Company has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated. This means comparative information is still reported under IAS 17.

Accounting policy applicable from 3 December 2018

The Company considers whether any new contract entered into on or after 3 December 2018 is, or contains, a lease.

At the lease commencement date, the Company recognises a right-of-use asset and a lease liability on the Balance Sheet.

The Company measures the lease liability at the present value of the lease payments that have not been paid at that date, discounted using the interest rate implicit in the lease (if that rate is readily available) or the Company's incremental borrowing rate. Subsequent to initial measurement, the liability is reduced for payments made and increased for interest. It is re-measured to reflect any modification, with a corresponding adjustment reflected in the right-of-use asset.

The Company has elected to account for short-term leases and leases of low-value assets using practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as expenses in the Statement of Comprehensive Income on a straight-line basis over the lease term.

Accounting policy applicable before 3 December 2018

Leased assets

Leases are classified as lease liabilities when the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leases are classified as operating leases.

The Company follows the guidance of IAS 17 "Leases" to determine the classification of leases as operating leases versus lease liabilities. The classification of a lease as a finance lease as opposed to an operating lease will increase EBITDA as the charge made by the lessor will pass through finance charges and depreciation will be charged on the capitalised asset. Retained earnings may also be affected depending on the relative size of the amounts apportioned to capital repayments and depreciation. IAS 17 "Leases" requires the Company to consider splitting property leases into their component parts (i.e. land and building elements). As only the building elements could be considered a finance lease, management must make a judgement, based on advice from suitable experts, as to the relative value of the land and buildings.

Lease liabilities

Assets funded through lease liabilities are capitalised either as property, plant and equipment, or intangible assets, as appropriate, and are depreciated or amortised over their estimated useful lives or the lease term, whichever is shorter. The amount capitalised is the lower of the fair value of the asset and the present value of the minimum lease payments during the lease term, measured at the inception of the lease. The resulting lease obligations are included in liabilities, net of attributable transaction costs. Finance costs on lease liabilities are charged directly to the Statement of Comprehensive Income on the effective interest rate basis.

Operating leases

Assets leased under operating leases are not recorded on the Balance Sheet. Rental payments are charged directly to the Statement of Comprehensive Income on a straight-line basis.

Lease incentives

Lease incentives primarily include upfront cash payments or rent-free periods. Lease incentives are capitalised and released against the relevant rental expense over the lease term.

Notes to the financial statements (continued)

Section 3 — Operating assets and liabilities (continued)

3.10 Lease liabilities (continued)

	52 weeks ended 1 Dec 2019 £m	52 weeks ended 2 Dec 2018 £m
Lease liabilities due:		
Within one year	24.1	-
Between one and two years	22.1	-
Between two and five years	57.6	-
<u>After 5 years</u>	<u>134.1</u>	<u>-</u>
Total lease liabilities	237.9	-
Minimum lease payments due:		
Within one year	27.8	-
Between one and two years	24.8	-
Between two and five periods	62.6	-
<u>After 5 periods</u>	<u>192.9</u>	<u>-</u>
	<u>308.1</u>	<u>-</u>
Less: future finance charges	(70.2)	-
Present value of lease liabilities	237.9	-
Disclosed as		
Current	24.1	-
Non-current	213.8	-

The existing lease liability arrangements entered into by the Company contain no restrictions concerning dividends, additional debt and further leasing. Furthermore, no material leasing arrangements exist relating to contingent rent payable, renewal or purchase options and escalation clauses.

The expenses relating to payments not included in the measurement of the lease liability are as follows:

	52 weeks ended 1 December 2019 £m	52 weeks ended 2 December 2018 £m
Short-term leases	-	-
Leases of low-value items	-	-

Total cash outflow for leases for the period was £3.8 million (2018: £Nil)

Notes to the financial statements (continued)

Section 3 — Operating assets and liabilities (continued)

3.11 Provisions

Dilapidations

Provisions for dilapidations are made in respect of properties where there are obligations to return these properties to the condition and state they were in when the Company obtained the right to use them. These are recognised on a property-by-property basis and are based on the Company's best estimate of the likely committed cash outflow. Where relevant, these estimated outflows are discounted to net present value.

	52 weeks ended 1 Dec 2019 £m
As at 2 December 2018	
Recognised on adoption of IFRS 16 at 3 December 2018	1.8
Additions	2.1
Disposals	(0.4)
Dilapidations provision transferred in	3.7
Discount unwind	0.3
Charge to the income statement	0.1
At 1 December 2019	7.6

During the period, as part of the 50:50 joint venture between Ocado Holdings Limited and Marks and Spencer Holdings Limited a provision of £3.7m was transferred to the Company from a Ocado Group entity, for the lease of buildings which the Company is now responsible for.

Notes to the financial statements (continued)

Section 3 — Operating assets and liabilities (continued)

3.12 Receivables under leases

To classify each lease, the Company makes an assessment of whether the lease transfers to the lessee substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is deemed a finance lease; if not, an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Company acts as an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not the underlying asset. If a head lease is a short-term lease to which the Company applies the exemption allowed under IFRS 16 "Leases" (see note 1.3), then it classifies the sub-lease as an operating lease.

On the adoption of IFRS 16 the Company was required to make an adjustment for leases in which it acts as an intermediate lessor. These were previously classified as operating leases under IAS 17, but are now deemed finance leases under IFRS 16.

Where an arrangement includes lease and non-lease components the Company has applied the rules of IFRS 15 "Revenue from Contracts with Customers" to allocate consideration to each lease and non-lease component.

Finance leases are recorded on the Balance Sheet as receivable at amounts equal to the net investments in the leases, being the discounted minimum payments receivable.

The Company recognises lease payments received under operating leases as income on a straight line basis over the lease term as other income.

	Receivables under leases
	£m
Cost	
At 3 December 2017 and 2 December 2018	
Recognised on adoption of IFRS 16	3.6
At 3 December 2018	3.6
Additions	
Disposals	(3.3)
Interest	0.1
Repayments	(0.4)
At 1 December 2019	-

Notes to the financial statements (continued)

Section 4 — Capital structure and financing costs

4.1 Finance income and costs

	52 weeks ended: 1 December 2019 £m	52 weeks ended: 2 December 2018 £m
Interest on amounts due from group undertakings	-	-
Interest on receivables under finance leases	0.1	-
Finance income	0.1	-
Interest on amounts due to group undertakings	(2.4)	(4.4)
Interest on lease liabilities	(8.0)	-
Other finance costs	(0.5)	-
Finance costs	(10.9)	(4.4)
Net finance (cost) / income	(10.8)	(4.4)

4.2 Share capital and reserves

Accounting policy

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Share capital and reserves

The issued, authorised and fully paid up share capital and share premium accounts are set out below:

	Ordinary shares Number	Share Capital £m	Share premium £m
At 2 December 2018 and 1 December 2019	100	-	360.3

All shares are fully paid, have equal voting rights and carry no right to fixed income. Each of the shares has a nominal value of £0.01. The movements in reserves other than share premium are set out below:

	Capital contributions reserve £m	Fair value reserve £m	Total other reserves £m
At 3 December 2017, 2 December 2018 and 1 December 2019	9.0	0.2	9.2

Other reserves

Other reserves consist of the capital contributions reserve and the fair value reserve.

The capital contributions reserve arose as a result of the Ocado Group equity-settled share-based payment charge in accordance with IFRS 2 "Share-based Payment".

The fair value reserve comprised gains and losses on movements in the Company's cash flow hedges, which consisted of foreign currency hedges. These were sold to another member of the Ocado Group as part of the Group restructuring in a previous period.

Notes to the financial statements (continued)

Section 5 – Other notes

5.1 Subsidiaries

In accordance with Section 409 of the Companies Act 2006, a full list of related undertakings, the country of incorporation and the effective percentage of equity owned, as at 1 December 2019 is disclosed below.

Name	Country of incorporation	Principal activity	Share class	Proportion of Share Capital Held
Speciality Stores Limited	United Kingdom	Retail	Ordinary	100%
Paws & Purrs Limited ¹	United Kingdom	Retail	Ordinary	100%

The registered address for both companies is Apollo Court, 2 Bishop Square, Hatfield Business Park, Hatfield, Hertfordshire, AL10 9EX, United Kingdom.

¹ Paws & Purrs Limited share capital is 100% owned by Speciality Stores Limited.

5.2 Commitments

Capital commitments

There are no contracts placed for future capital expenditure but not provided for in the financial statements at period end (2018: Nil).

Operating lease commitments

The Company has no operating lease commitments (2018: none).

5.3 Contingent liabilities

The Company has contingent liabilities in respect of legal claims arising in the ordinary course of business, all of which the Company expects will be either covered by its insurances or will not be material in the context of the Company's financial position.

5.4 Related party transactions

The Company has taken advantage of the exemption permitted by FRS 101.8 not to disclose related party transactions with entities that are wholly owned by Ocado Retail Limited.

Included within amounts due to Group undertakings and amounts due from Group undertakings are balances with companies in the Ocado Group, which the Company's controlling party, Ocado Holdings Limited is a member.

Company	Included within amounts due to Group undertakings £m	Included within amounts due from Group undertakings £m
Ocado Group Limited	(0.3)	0.3
Ocado Holdings Limited	(0.5)	2.2
Ocado Polska Limited	(2.0)	1.9
Ocado Operating Limited	(75.9)	52.0
Ocado Central Services Limited	(1.1)	2.7
Ocado Innovation Limited	(4.2)	3.1
Ocado Espania (OESL)	-	0.2

During the period the Company paid net recharges of £173.4 m to Ocado Operating Limited for goods and services provided.

During the period the Company recharged £0.1m to Ocado Innovation Limited for goods and services provided.

Notes to the financial statements (continued)

Section 5 — Other notes (continued)

5.5 Post balance sheet events

In December 2019 the Company was granted a revolving credit facility of £30.0m.

For details of how the Company has been affected by the COVID-19 pandemic, see the Strategic Report on page 3.

5.6 Ultimate parent undertaking and controlling party

In August 2019, Marks and Spencer Holdings Limited acquired a 50% stake in Ocado Retail Limited to form a new 50:50 joint venture with Marks and Spencer Holdings Limited and Ocado Holdings Limited. Management has concluded that Ocado Holdings Limited still controls Ocado Retail Limited, since it holds 50.0% of the voting rights of the company and an agreement signed by the shareholders grants the Ocado Group determinative rights, after agreed dispute-resolution procedures in relation to the approval of the Company's business plan and budget and the appointment and removal of the Company's Chief Executive Officer who is responsible for directing the relevant activities of the business. The Company's controlling party is Ocado Holdings Limited, a company incorporated in the United Kingdom. Ocado Group plc is the parent undertaking of the largest and smallest group of undertakings to consolidate these financial statements at 1 December 2019. The consolidated financial statements of Ocado Group plc can be obtained from Buildings One & Two, Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9UL, United Kingdom, or from its corporate website, www.ocadogroup.com.