

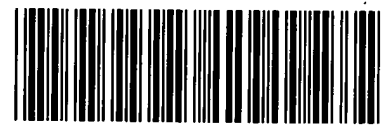
# Ocado Retail Ltd

## Annual Report and Financial Statements for the 52-week period

2 December 2019 to 29 November 2020

COMPANY NUMBER 03875000

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# Strategic Report

## Chief Executive Review

I have the pleasure of presenting the Annual Report and Financial Statements for Ocado Retail Limited's (Ocado Retail) first full year as a 50:50 joint venture between Ocado Group and Marks & Spencer.

At the beginning of the Covid-19 outbreak in the UK, demand for online groceries soared overnight, doubling the online grocery market from 7% to 14% in 2020. Many of the customers we serve today tried online grocery for the very first time during lockdown. Having experienced the ease and convenience of Ocado, we continue to observe increasing demand for online groceries during 2021, indicating it is unlikely that they would revert back to their pre-pandemic shopping habits.

Due to the unprecedented demand, we deployed increased capacity to serve a smaller number of active customers, resulting in a decline in active customers from 795,000 in 2019 to 680,000 in 2020. However, despite the challenges of the pandemic, where the industry faced lower product availability amidst customer "panic buying" and other supply chain constraints, we managed to deliver significantly more groceries than ever before, and an increase in customer fulfilment centre (CFC) capacity will provide the opportunity to serve more customers. In September 2020, we successfully launched thousands of products from the M&S food and drink range on Ocado.com - a major milestone for both companies. Ocado is now the exclusive home delivery service for M&S food and drink.

### Ocado Retail's unbeatable proposition

We have more choice than many other supermarkets with over 40,000 products, the freshest food with the shortest chain from suppliers to customers. We use Ocado Group's world-leading technology to provide our award winning service that helps automate our CFCs to use clever algorithms to plan the routes of our vans and power our website. This technology enables us to deliver 95% of orders on time (2019: 95%), with less than 3% substitutions (2019: 1%) - terrific figures that make Ocado the UK's best online supermarket.

We are always monitoring our prices against other supermarkets to make sure we are delivering value. We are committed to being the most sustainable grocer in the UK and to maintaining our industry-leading low levels of food waste (~0.4%). We work closely with food banks, social enterprises and other charities, including the local wildlife park, to redistribute the groceries we can't sell.

This gives us a deeper relationship with our customers, and we have the highest satisfaction scores in the market. Our customers donated £4.0 million to food charities through our You Give We Give initiative in 2020, which we matched to donate a total of over £8.3 million in stock and cash donations.

### What we have delivered in 2020

We delivered exceptional performance in 2020. On 1 September 2020, we successfully switched over to M&S products on Ocado.com as planned. This was positively received by our customers, with M&S products making

up a 30%+ share of basket and 98% of Ocado Retail customers shopping M&S products just weeks after 1 September.

We have begun an extensive category and pricing review across all ranges to ensure we have the best offering for our customers. We have also agreed to future CFCs builds to grow our peak day capacity by 19% by the end of FY21.

We have made strides on transforming our IT capabilities and planned our Ocado Smart Platform migration with Ocado Group, to better serve our customers and our colleagues.

As we rapidly scaled our business, we have grown our teams significantly and built outstanding functional capabilities (e.g. in digital marketing, data and insights, and buying), key to delivering our accelerated transformation.

#### **Plans for the future**

In 2021, we launched our new CFC at Bristol, Andover and Purfleet will launch in September 2021, increasing our capacity by over 40%, when these sites reach maturity. We are also expanding Ocado Zoom, our immediacy service, delivering groceries to our customers in c. 1 hour in more locations.

We relaunched the Ocado brand with “There is an Ocado Just For You” campaign in May 2021, as well as our Smart Pass plan. We are transforming our ranges to offer the biggest and most differentiated proposition. We continue to strive for great value for our customers, extending our Anchors range to ensure customer favourites and essentials are at market competitive prices, and expanding our Ocado own brand offering to deliver consistently high quality and good value.

What really sets Ocado Retail apart is the amazing team that delivers all of this - the mighty Ocado Retailers running the show behind the scenes - answering customer queries, those working with our partners on new products, and our colleagues in Ocado Logistics making sure our facilities run smoothly. During 2020 our people went extraordinary lengths to deliver for our customers in the most challenging of circumstances. I am so proud of all of our Ocado colleagues who have worked tirelessly night and day, delivering 40% more groceries from existing sites, to help feed the nation during such a testing and uncertain time.

Melanie Smith CBE, CEO

## Highlights from 2020

We are Ocado Retail, the UK's only dedicated online supermarket.



**£2,148.1 million**  
in revenue  
(2019: £1,573.4 million)



**36.5%**  
growth in revenue  
(2019: 10.2%)



**7.2%**  
Adjusted EBITDA  
margin (2019: 0.4%)



**1.7%**  
share of the UK grocery  
market (2019: 1.2%)



**334,000**  
orders per week  
(2019: 325,000)



**40,000+**  
products in the range



**96%**  
order accuracy  
(2019: 99%)



**0.4%**  
food waste as % of  
sales (2019: 0.7%)

## Financial Review

For the period to 29 November 2020 we achieved significant sales growth in a highly challenging and competitive online grocery environment.

Revenue grew by 36.5% to £2,148.1 million (2019: £1,573.4 million) reflecting strong demand for online grocery due to Covid-19 and enabled by increased capacity at our customer fulfilment centres. This was supported by improvements to our proposition as we added over 5,000 M&S product lines to our range.

Lockdown restrictions meant the average basket value increased by £31 to £137 (2019: £106). Average deliveries per van per week (DPV) declined to 184 (2019: 196), as larger basket sizes limited the number of customer orders delivered by each van in a single shift, contributing to the reduction in our active customer base. However, overall delivery cost was down, as the shift towards larger basket shops drove an increase in the number of units carried per van.

Customer behaviour shifted significantly following the introduction of Covid-19 restrictions and this allowed us to spread customer orders more evenly over the whole week compared to the normal peaks and troughs.

Gross profit increased from £454.4 million in the prior year to £669.2 million driven in part by higher revenue. However gross margin increased from 29% to 31% as we improved our product mix, reduced sourcing fees as a result of the termination of the Waitrose Sourcing contract in August 2020 and operational efficiencies, including a reduction in stock wastage.

Other income increased to £68.5 million (2019: £64.2 million) as we continue to grow income from media-related activities through engagement with our suppliers on our customer interfaces (website, mobile apps and mobile websites). Growth in other income was less than the rate of sales growth as certain product range changes were made to maximise capacity during the pandemic.

The operating profit for the period before exceptional items was £119.4 million (2019: £9.3 million loss). Distribution costs and administrative expenses included costs for both the Ocado fulfilment and delivery operation which are recharged from the UK Logistics operation of the Ocado Group.

Other administrative costs increased by £32.6 million to £111.4 million (2019: £78.8 million) to support underlying business growth. Key investments have included strengthening the buying team, which contributed to a strong margin performance in the period. In the second half of 2020, a new annual bonus plan and incentive scheme was implemented linked to long-term valuation creation. The accounting charge for this scheme of £14.0 million, which was recognised in the period, had no comparable charge in the prior period.

Exceptional income of £40.1 million (2019: £0.4 million) has been recognised in relation to the Business Interruption claim for the fire which destroyed the Andover CFC in February 2019.

Our cash position strengthened throughout the period to £155.9 million of cash and cash equivalents at the period end (2019: £32.9 million).

## Key performance indicators

The following table sets out a summary of selected operating information for the financial periods 2020 and 2019.

	Period ended 29 November 2020	Period ended 1 December 2019	Variance %
Revenue (£ million)	2,148.1	1,573.4	36.5%
Gross Profit (£ million)	669.2	454.4	47.3%
Adjusted EBITDA <sup>1</sup> (£ million)	154.4	6.4	2312.5%
Profit/(Loss) Before Tax (£ million)	146.0	(19.7)	841.1%
Average orders per week	334,000	325,000	2.8%
Active customer base <sup>2</sup>	680,000	795,000	(14.5)%
Average order size <sup>3</sup> (£)	137.2	106.3	29.1%
Average deliveries per van per week	184	196	(6.1)%

Source: the information in the table above is derived from information extracted from internal financial and operating reporting systems and is unaudited with the exception of revenue, gross profit and profit/(loss) before tax which has been extracted from the audited financial statements.

<sup>1</sup> EBITDA adjusted to exclude exceptional items

<sup>2</sup> Customers are classified as active if they have shopped on ocado.com within the previous 12 weeks

<sup>3</sup> Average retail value of goods a customer receives (including VAT and delivery charge and including standalone orders) per order. This is after cancelled orders are deducted.

## Future Developments

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.

Ocado Retail is focused and on track to significantly increase its capacity, and seize the huge opportunity ahead as accelerated channel shift to online continues in the UK. In 2021, we launched our new CFC at Bristol, Andover and Purfleet will launch in September 2021, increasing our capacity by over 40% when these sites reach maturity. A further mini CFC is planned for go-live in the first half of 2022 and we plan to open an additional 12 Ocado Zoom sites over the next three years.

## Principal risks and uncertainties

The following principal risks and uncertainties have been identified 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 Brexit and the ongoing Covid-19 pandemic. 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.

The conclusion and successful ratification of a binding post-Brexit Free Trade Agreement between the UK and EU occurred after the Company's financial year end. This mitigated many of the principal risks relating to Brexit. The impact of this agreement will continue to be monitored and managed, including risks to the supply chain and difficulty accessing and retaining talent. As discussed below, a number of mitigating actions and plans have been implemented to manage the disruption to the business from Covid-19.

### Operational performance and reputation

Owing to a number of factors, there is a risk of decline to the high customer service levels which customers are accustomed to. Covid-19 related disruption adds an additional element of risk, including the difficulties in accessing and retaining talent. The Board maintains oversight of the key performance indicators of Company operations including service delivery and performance of drivers and holds regular review meetings with Management both of Ocado Retail and UK Logistics operation of Ocado Group.

There is a risk of delay in the generation of additional capacity to sustain growth. Capacity is increasing as Bristol CFC becomes operational with further capacity under development of Purfleet CFC and rebuild of Andover CFC. Regular Steering and cross-functional implementation meetings and Management oversight for new CFC projects, including managing programme risks, milestones and actions. New programme management framework, tools and process mapping for improved project delivery.

Further, there is the potential risk to maintain a retail proposition which appeals to a broad customer base and sustains growth rates. We continue to refine and monitor value perception and competitive pricing to customers. Significant effort has been implemented to develop the own-label range and deepen supplier arrangements on product range and terms as well as integrate M&S products. Further investment and optimisation of the marketing channels and improvement to the webshop and apps also contribute to mitigating the risk to the Company's reputation.

There is a risk of supply chain disruption adversely affecting product availability, delivery and cost. Risks are reviewed by supply chain and buying teams areas to manage key suppliers and products. Supplier assessments and due diligence is undertaken during the procurement process. There is also ongoing monitoring of supply chain demand against potential supply capacity constraints. Should significant circumstances arise, supply chain continuation plans agreed by the Board and implemented by management.

#### **Technology risk**

We remain subject to an ongoing risk of cyber-attack or data breach that could result in business disruption, reputational damage, significant fines or the loss of confidential business information. Whilst no such instances occurred in 2020, established systems, processes and controls are structured and tested to ensure reliable and secure operations for Ocado Retail. Cyber incident contingency planning is in place. The Data Protection Officer also supports the Company to oversee its GDPR compliance programme.

We have made strides on transforming our IT capabilities and planned our Ocado Smart Platform migration with Ocado Group, to better serve our customers and our colleagues.

The risk of business interruption extends to technological failure and disasters, including fire, at the CFCs. Disaster recovery testing and business continuity plans continue to be progressed and updated. Residual risk is transferred with business interruption insurance.

#### **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 a framework of policies and procedures and mandatory training to appropriate colleagues to ensure compliance with regulations. Ongoing review of regulatory developments ensures any changes are identified. Experienced legal, food and product technology professionals 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, demand for online groceries increased significantly, exceeding the available capacity. In ensuring the continuity of operations, measures were taken both to restrict access to the webshop and to prioritise availability of delivery slots to the most loyal and most vulnerable customers. The platform has been adapted and steps taken to increase capacity rapidly to allow more groceries to be delivered to customers, with CFCs operating at their peak efficiencies to date. However, this has affected some customers and meant that product availability and order fulfilment KPIs have been lower than typical within the Company.

The Company considers the additional costs incurred and revenues generated as being a fundamental part of trading during the pandemic and therefore all associated costs have therefore been accounted for as pre-exceptional. The Company has not taken advantage of any of the Covid-19 support measures offered by the UK Government.

Although the pandemic has accelerated the long-term shift towards online grocery, there are 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.

### **Section 172(1) 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. Engaging with stakeholders to deliver long term success is a key area of focus for the Board and all decisions take into account the impact on stakeholders.

#### **The likely consequence of any decision in the long term:**

All Board decisions are made with the Company's sustainable success at the forefront, which is ultimately for the long-term benefit of the Company's stakeholders, as well as contributing to wider society. The Company's key stakeholders are its customers, employees, suppliers, shareholders, communities and the environment and regulators. The views and the impact of the Company's activities on those stakeholders are an important consideration for the directors when making relevant decisions. The Covid-19 response provides an illustrative example of how the Board takes stakeholder views, and the impact on stakeholders, into account in its decision-making.

The Company's mission is to wow customers through an incredible combination of unbeatable range, effortless convenience and fair value and this forms the basis of all actions. This mission, along with the Company's values, purpose and strategy are key considerations in the actions and decision-making of the Board and the oversight of implementation of these into the operations of the Company.

The Board is responsible for setting the strategic direction of the Company in both the long and short term. The Board approved the Company's rolling five year plan (2020-2024) in the financial period as well as the annual budget and monitors performance against these metrics on an ongoing basis, as well as considering the allocation of capital in order to support the strategy of the Company.

The risk management process is designed to improve the likelihood of delivering the business objectives, protect the interests of key stakeholders, enhance the quality of decision-making, and assist in the safeguarding of assets, including people, finances, property and reputation. The Audit Committee, delegated by the Board, is responsible for the review and approval of the risk management framework which identifies Ocado Retail's key strategic and emerging risks. The Audit Committee is also responsible for the review of the effectiveness of risk management, the system of internal control, and the monitoring of the quality of financial statements and consideration of any findings reported by the auditor, Deloitte LLP, in relation to the control environment and its financial reporting procedures.

**The interests of the Company's employees:**

It is of the utmost importance to the Board that Company employees have a diverse range of experiences, expertise and perspectives. Employee successes are celebrated against three core values; always be curious, bring your best self and challenge what's possible; these are deemed to be the recipe for Ocado Retail's success.

Open and ongoing dialogue and questioning is proactively encouraged between employees and senior management or the Board, with specific channels of communication open for transparency throughout the business. The Company's employees receive updates on the business's performance and strategy through weekly business meetings (held virtually throughout the Covid-19 pandemic) and updates via the intranet.

The health and safety of employees (and other stakeholders) has remained paramount, particularly in the challenging pandemic period, and the Directors and senior management continue to review this area on a regular basis. The Board implemented temperature monitoring and testing of colleagues for Covid-19 since the commencement of the pandemic in the UK to ensure safety to continue trading.

Ocado Retail is an equal opportunities employer and makes every effort to ensure all potential and existing employees, along with suppliers and customers, are treated fairly and equally. The intention is that there will be no hiding place for discrimination of any kind at Ocado Retail and are proud that 70% of the leadership team is female. A number of inclusion committees are active and make regular communications to the wider business and feed into Management to ensure diverse views are represented and considered by the Board.

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 80% (2019: 71%) of employees took part in this period's employee survey.

**The need to foster the Company's business relationships with suppliers, customers and others:**

Our amazing suppliers are essential to be able to provide a full range of quality products to allow us to offer customers an excellent range and service. Various communication channels are open with suppliers, including through a dedicated supplier website, supplier surveys and attendance at supplier conferences. Supplier forums are also held on specific issues, for example regarding packaging with own brand suppliers.

The Company maintains a supplier application website to aid the retail listing process and thereby make Ocado Retail more accessible for Small to Medium-sized Enterprises (SMEs). The Board takes seriously its willingness to help nurture and support new and innovative brands. During the Covid-19 pandemic, support has been extended to many small suppliers who, more than ever, need financial support and changed terms of payment to be immediate.

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 2020 Modern Slavery Statement which was overseen by the Board and available on the Company's website.

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. Collaborative engagement with suppliers is key to ensure relationships are conducted fairly and lawfully, in line with the requirements of the Groceries Supply Code of Practice (GSCOP). Regular update reports are provided to the Audit Committee, as delegated by the Board, in relation to GSCOP and compliance. For further information, please view our GSCOP Annual Statement at <https://ocadoretail.com>.

The Company strives to ensure every supplier feels equally supported and fairly treated. The language used in supplier application forms has been reviewed, and included diversity questions as part of supplier application process from August 2020, to help the Board monitor the diversity of the supplier base.

Customers are vital for the long term success of the Company. Listening to customers helps better understand their needs so these can continue to be met. The Company continually engages with its customers in a number of ways in order to receive feedback on the service. Ocado Retail communicates through emails, social media activities and advertising. The Customer Hub is open seven days a week to assist customers with any queries.

Regular update reports are provided to the Board including trading figures, customer behaviour and new and ongoing initiatives which drives key decisions.

**The impact of the Company's operations on the community and the environment:**

Ocado Retail is committed to meeting the needs of customers without compromising quality of life for future generations. This is achieved by focusing on four core areas: food waste, carbon impact, packaging waste, and responsible impact.

The Board is committed to ensuring that no edible food goes to landfill and all edible food is redistributed, food waste accounts for just 0.4% (2019: 0.7%) of sales for Ocado Retail in the UK, compared to industry average of 2-3%. The majority of this food is redistributed to local charities, staff canteens, staff sales and Company Shop. All inedible food continues to be sent to anaerobic digestion and during 2020 over 3,000 tonnes of inedible food was diverted from landfill, saving 98% of the associated carbon. In 2020 only 0.044% of food items from the CFCs were sent for anaerobic digestion, a figure the Company continues to be proud of.

There is a commitment to work with fellow retailers, suppliers, the UK Government and other stakeholders to accelerate the retail industry's progress towards a Net Zero UK, ahead of the Government's 2050 target. We are a founding member of the British Retail Consortium's Climate Action Roadmap and have signed up to the headline commitment to be Net Zero across Scope 1, 2 & 3 by 2040. Further information in relation to carbon and energy usage can be found in the Director's report.

The Eco Shop was launched in July 2020 to enable customers to find more environmentally-friendly options without having to search the entire website. All polyvinyl chloride (PVC), polystyrene and black plastics have been eliminated from the own-label range. Frequent reviews of the own-label range result in continual improvements to its recyclability and recyclable content.

Our position in the retail industry gives a unique opportunity to ensure the impact on people, the welfare of animals and the environment is positive and sustainable in the long-term. The Company has also partnered with The Waste and Resources Action Programme (WRAP) since 2016, donating £100k per annum towards sustainability and recycling education projects. Ocado Retail continues to support a network of food partners and social enterprises working towards ending food poverty in the UK through donations of groceries, money and vans. The Company's staff also play their part by being granted an additional day of annual leave to work with food partners or social enterprises.

**The desirability of the Company maintaining a reputation for high standards of business conduct:**

The Directors strive through their own behaviours to set a strong tone from the top for senior management and the wider workforce. The Board leads by example in its actions to promote this culture, by maintaining high standards of ethics and integrity, and ensures that the necessary policies and procedures are put in place.

We are committed to maintaining the highest standards of ethical conduct and integrity in our business practices and we have in place compliance policies and processes to ensure these standards are embedded across the business.

In addition to the steps outlined previously in relation to employees and suppliers and other key stakeholders, the Board has approved the Company's policies on Modern Slavery, responsible sourcing code of practice, human rights, whistleblowing and anti-bribery.

The responsible sourcing code of practice stipulates that goods must be produced lawfully, through fair and honest dealing, in decent working conditions, and without exploiting the people who made them. Our human rights policy includes provisions forbidding any use of forced, bonded or involuntary prison labour; ensuring that workers are not required to lodge deposits or identity papers with their employer; that child labour shall not be used and that suppliers shall contribute to programmes that provide remedies for incidents of child labour that conform to the provisions of the relevant International Labour Organization (ILO) standards.

Our whistleblowing policy is designed to enable our employees to raise legitimate concerns in relation to any danger, fraud or other illegal or unethical conduct in the workplace, without fear of being subject to any detriment, victimisation or disciplinary action. Our anti-bribery policy sets out our responsibilities, and of those working for us, in observing and upholding our position on bribery, corruption and money laundering issues.

The collection of policies which form the Ocado Retail Code ensures everyone understands how the Company conducts its business, and explains the values and principles underlying Ocado Retail.

**The need to act fairly as between members of the Company:**

Both shareholders have equal representation on the Board which, together with the Company's shareholders' agreement and articles of association enable the dissemination of core information and ensure an ongoing dialogue with its shareholders on key business issues. There are also representatives of the shareholders who make up the Audit Committee which helps to provide oversight of the key principal risks affecting the

Company, and likewise the Remuneration Committee supporting the Company on the performance and remuneration of the executive directors and wider leadership team.

## **Groceries Supply Code of Practice (the Code) Summary of Annual Compliance Report 2019 - 2020**

We recognise the crucial role that our suppliers play in meeting the expectations of our customers at Ocado Retail. We're committed to engaging collaboratively with our suppliers to ensure our relationships are conducted fairly and lawfully, in line with the requirements of the Code. This summary of our Annual Compliance Report is for the period of 2nd December 2019 to 29th November 2020.

### **Background**

During this financial year, Ocado Retail undertook its biggest operational change to date as we implemented the changeover from selling Waitrose products to selling M&S products, launching the public-facing element of the joint venture. It also meant that for the first time in our history we took on responsibility for negotiating the cost prices of the vast majority of our range, a role previously fulfilled for us by Waitrose. This was accompanied by a full range review and detailed supplier negotiations as we worked to reset and establish the new proposition. The Buying Team was briefed throughout this process on the Code requirements and the approach to take when dealing with our suppliers to ensure we worked in a collaborative and transparent way.

During the initial Covid-19 restrictions we experienced high levels of customer demand and worked closely with our suppliers to help prioritise products that customers wanted the most. This was achieved during a short period of time and is testament to our collaborative approach to building good relationships with our suppliers. We are grateful to our suppliers for their support during this period of uncertainty and we have continued to monitor customer demand to ensure we are able to meet their expectations.

Ocado Retail Limited has met all reporting requirements through the timely submission of the Annual Compliance Report to the CMA and submission of the Progress Update Reports to the Groceries Code Adjudicator (GCA). Our Code Compliance Officer (CCO) has provided ad-hoc updates to the GCA when requests have been received for further information and was constantly available to the GCA for monthly updates relating to any supplier escalations arising from activities undertaken during the initial stages of Covid-19.

During the course of the year we have:

- developed and implemented a new governance structure created a new online training module for annual refresher and new starter training
- trained 538 colleagues
- developed new trainer-led material and held in-depth training sessions for the Buying Team
- strengthened our new starter process

### Supplier Survey

We were pleased with the results of the 2020 Groceries Code Adjudicator's annual Supplier Survey that highlighted that the majority of our suppliers, 93%, agree that Ocado Retail Limited conducts its trading relationships fairly, in good faith and without duress, placing us 7th out of 13 retailers. We are grateful to our suppliers for taking the time to provide their feedback and have reviewed the results with each of the teams responsible in order to identify areas where additional actions can be taken to further improve our performance.

### Supplier Disputes

Our teams work closely with suppliers to resolve any issues that arise, the vast majority of which are resolved at the first point of contact. During the financial year we did not receive any formal disputes and dealt with three escalations informally as follows:

- Two complaints were received and resolved by the Buying Team (level one)
- One complaint was received and resolved by the CCO (level two)

The three complaints were considered to be within the scope of the Code and were resolved in conjunction with each supplier concerned. Alongside the resolution we also identified additional steps that we have built into our approach in order to avoid any recurrence.

### Key Contacts

We encourage all of our suppliers to raise any queries or feedback directly with their named contact within the Buying Team or with the Senior Buying Manager for their category.

If any of our suppliers wish to raise queries outside of the Buying Team or would like to have a conversation in confidence, they can contact our Code Compliance Officer (CCO), Robert Skelton, by email at [gscop@ocadoretail.com](mailto:gscop@ocadoretail.com).

Contact details for the Groceries Code Adjudicator (GCA) along with more information about GSCOP can be found at <https://www.gov.uk/government/organisations/groceries-code-adjudicator>.

For further information, please view our GSCOP Annual Statement at <https://ocadoretail.com/>.

Approved by the Board and signed on its behalf by:



**Niall McBride**

Director

Date 20 August 2021

## Directors' Report

The Directors present their Annual Report and Financial Statements of Ocado Retail Limited (the "Company") for the 52 week period ended 29 November 2020. This report must be read in conjunction with the Strategic Report on pages 3 to 15.

### Board of Directors

The Directors and Officers of the Company who were in office during the period and up to the date of signing the Annual Report and Financial Statements were:

Melanie Smith

Niall McBride (appointed 13 January 2020)

Timothy Steiner

Stephen Rowe

Duncan Tatton-Brown

Eoin Tonge (appointed 24 June 2020)

Lawrence Hene

Stuart Machin

Carolyn Bane (Company Secretary) (resigned on 1 January 2020)

Jonathan Wiseman (Company Secretary) (appointed 11 January 2021)

### Political donations and expenditure

No political donations or expenditure was made by the Company to any political party, organisation or candidate during the period (2019: £Nil).

### Charitable donations

During the year the Company made charitable cash donations amounting to £2.9 million (2019: £Nil million). Additional donations of stock valued at £5.4 million (2019: £2.1 million) were also made. Both of these were part funded (£4.0 million) by customers through our You Give We Give initiative.

### Research and development

No research and development is undertaken by the Company.

## Streamlined Energy and Carbon Reporting

Ocado Retail Limited is reporting against the Streamlined Energy and Carbon Reporting (SECR) framework for the first time. The methodology used is the WBCSD/WRI Greenhouse Gas Protocol: a corporate accounting standard revised edition in conjunction with UK Government environmental reporting guidelines including SECR guidance. An operational control approach has been taken. UK Government greenhouse gas conversion factors for company reporting 2020 have been used. Scope 2 emissions from purchased electricity are reported using a location-based approach, with emissions also calculated using a market-based approach.

Ocado Retail Limited's total energy consumption for the 2020 financial period was 1,378,537 kWh. This includes the Company's share of electricity and natural gas usage for the Apollo Court building and transport fuels for business travel in employee owned cars and hire cars. The Company does not currently have operational control for the distribution services (including the CFCs), and the energy and associated emissions for these operations are reported by Ocado Group.

For 2019-20, the total carbon emissions associated with the reported energy use are 297.36 tonnes CO<sub>2</sub>e, with the following breakdown by scope:

Carbon Emissions	52 weeks ended 29 November 2020
Scope 1 emissions (tonnesCO <sub>2</sub> e)	91.39
Scope 2 (location-based) emissions (tonnesCO <sub>2</sub> e)	198.27
Scope 3 emissions – business travel where responsible for fuel (tonnes CO <sub>2</sub> e)	7.70
Scope 1, 2 (location-based) and 3 emissions (tonnesCO <sub>2</sub> e)	297.36

For 2019-20, emissions intensity, measured as the total scope 1, 2 and 3 emissions relative to the total number of orders fulfilled is 1.794 tonnes CO<sub>2</sub>e per 100,000 orders fulfilled.

Ocado Retail Limited's purchased electricity is from 100% renewable sources. The total greenhouse emissions calculated using a market-based approach for scope 2 for 2019-20 are 99.1 tonnesCO<sub>2</sub>e.

Ocado Retail Limited are not reporting any energy efficiency actions this year. It is the intention of the Company to report on these in future years.

## 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.

### **Equal opportunities**

Creating an environment that is inclusive to everyone irrespective of their age, disability, gender, marital status, parental status, race, colour, nationality, religion, sexual orientation, trade union membership or offending background, or the fact that you are a part-time worker or a fixed-term employee is one of the Company's key priorities. The Company has an ongoing commitment to continue to recruit and 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.

### **Stakeholder and employee engagement**

Details of how the Directors have engaged with its employees, suppliers, customers and other stakeholders and the principal decisions made can be found within the Strategic Report on pages 3 to 15.

### **Financial instruments**

Details are included in notes 3.6, 3.7, 3.9, 3.10 and 3.12 of the Financial Statements.

### **Results and dividends**

The Company's statutory results for the period are set out in the Statement of Comprehensive Income on page 24. The Directors do not propose to pay a dividend for the period (2019:Nil)

### **Events occurring after the reporting period**

Details of events occurring after the reporting period are included in note 5.5 of the financial statements.

### **Going Concern**

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the Company's accounts. Further details regarding the adoption of the going concern basis can be found in note 1 to the accounts.

### **Directors' interests**

The Directors did not have beneficial interests in the shares of the Company at the end of the period.

### **Directors' insurance and indemnities**

Ocado Group 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.

#### **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 they ought to have taken as a director in order to make themselves 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 are deemed to be reappointed.

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 20 August 2021

## 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 29 November 2020 and of its profit 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

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

- 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 and financial statements, 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.

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

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](http://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.

*Heather Bygrave*

**Heather Bygrave FCA (Senior statutory auditor)**

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

Date 20 August 2021

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Annual Report and Financial Statements 2020

Ocado Retail Limited

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## Statement of Comprehensive Income

For the 52 week period ending 29 November 2020

		52 weeks ended 29 November 2020	52 weeks ended 1 December 2019
	Notes	£ million	£ million
Revenue	2.2	2,148.1	1,573.4
Cost of sales		(1,478.9)	(1,119.0)
<b>Gross profit</b>		<b>669.2</b>	<b>454.4</b>
Other income		68.5	64.2
Distribution costs		(506.9)	(449.1)
Administrative expenses		(111.4)	(78.8)
<b>Operating profit/(loss) before exceptional items</b>		<b>119.4</b>	<b>(9.3)</b>
Exceptional items	2.6	40.1	0.4
<b>Operating profit/(loss)</b>		<b>159.5</b>	<b>(8.9)</b>
Finance income	4.1	-	0.1
Finance costs	4.1	(13.5)	(10.9)
<b>Profit/(Loss) before taxation</b>	2.3	<b>146.0</b>	<b>(19.7)</b>
Taxation	2.5	(24.7)	3.3
<b>Profit/(Loss) for the period and total comprehensive income/(expense)</b>		<b>121.3</b>	<b>(16.4)</b>

All amounts are derived from continuing operations.

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

		52 weeks ended 29 November 2020	52 weeks ended 1 December 2019
	Notes	£ million	£ million
Operating profit/(loss)		159.5	(8.9)
Adjustments for:			
Exceptional items	2.6	(40.1)	(0.4)
Depreciation of property, plant and equipment	3.3	2.0	4.9
Depreciation of right-of-use assets	3.4	33.0	10.8
<b>Adjusted EBITDA</b>		<b>154.4</b>	<b>6.4</b>

**Balance Sheet as at 29 November 2020**

	Notes	29 November 2020 £ million	1 December 2019 £ million
Intangible assets	3.2	0.6	0.3
Property, plant and equipment	3.3	68.8	16.4
Deferred tax asset	2.5	4.1	10.4
Right-of-use assets	3.4	240.8	235.1
<b>Non-current assets</b>		<b>314.3</b>	<b>262.2</b>
Inventories	3.5	56.1	47.9
Trade and other receivables	3.6	297.3	229.6
Cash and cash equivalents	3.7	155.9	32.9
Asset held for sale	3.8	4.2	4.2
<b>Current assets</b>		<b>513.5</b>	<b>314.6</b>
<b>Total assets</b>		<b>827.8</b>	<b>576.8</b>
Trade and other payables	3.9	(404.3)	(303.5)
Lease liabilities	3.10	(26.0)	(24.1)
<b>Current liabilities</b>		<b>(430.3)</b>	<b>(327.6)</b>
<b>Net current assets/(liabilities)</b>		<b>83.2</b>	<b>(13.0)</b>
Lease liabilities	3.10	(224.9)	(213.8)
Provisions	3.11	(22.1)	(7.6)
<b>Non-current liabilities</b>		<b>(247.0)</b>	<b>(221.4)</b>
<b>Total liabilities</b>		<b>(677.3)</b>	<b>(549.0)</b>
<b>Net assets</b>		<b>150.5</b>	<b>27.8</b>
Share capital	4.2	-	-
Share premium	4.2	360.3	360.3
Other reserves	4.2	9.2	9.2
Retained earnings / (accumulated losses)		(219.0)	(341.7)
<b>Shareholder's funds</b>		<b>150.5</b>	<b>27.8</b>

The financial statements on pages 24 to 52 were authorised for issue by the Board of Directors and signed on its behalf by:



**Niall McBride**

Director

Date 20 August 2021

Ocado Retail Limited, Company Registration Number 03875000 (England and Wales)

## Statement of Changes in Equity

For the 52 weeks ended 29 November 2020

	Share capital £ million	Share premium £ million	Other reserves £ million	Retained earnings / (accumulated losses) £ million	Total equity £ million
<b>Balance at 2 December 2018</b>	-	<b>360.3</b>	<b>9.2</b>	<b>(302.8)</b>	<b>66.7</b>
Adjustment arising from Group restructuring <sup>1</sup>	-	-	-	(22.5)	(22.5)
Loss for the period and total comprehensive expense	-	-	-	(16.4)	(16.4)
<b>Balance at 1 December 2019</b>	-	<b>360.3</b>	<b>9.2</b>	<b>(341.7)</b>	<b>27.8</b>
Adjustment from Group restructuring	-	-	-	1.4	1.4
Profit for the period and total comprehensive income	-	-	-	121.3	121.3
<b>Balance at 29 November 2020</b>	-	<b>360.3</b>	<b>9.2</b>	<b>(219.0)</b>	<b>150.5</b>

<sup>1</sup> In August 2019, Ocado Holdings Limited, which was 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 recognized 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 in the United Kingdom and registered in England and Wales. The address of its registered office is Apollo Court, 2 Bishop Square, Hatfield Business Park, Hatfield, Hertfordshire, AL10 9EX.

The financial period represents the 52 weeks ended 29 November 2020. The prior financial period represents the 52 weeks ended 1 December 2019.

#### Principal Activities

The principal activity of the Company is a UK based online grocery retailer through the ocado.com website and the provision of the same-day online grocery service through Ocado Zoom.

The Company is a 50:50 joint venture between Marks & Spencer Holdings Limited and Ocado Holdings Limited. Under IFRS 10 Consolidated Financial Statements, it has been concluded that the Company’s controlling party continues to be Ocado Holdings Limited, a company incorporated in the United Kingdom.

Further information on the principal activities of the Company can be found as discussed in the Strategic Report on pages 3 to 15.

#### 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 largest and smallest group of undertakings to consolidate these financial statements at 29 November 2020. Note 5.6 gives details of the Company’s ultimate controlling party and from where the consolidated financial statements prepared in accordance with IFRS may be obtained. The Company had adopted the exemption under section 400 of the Companies Act 2006, whereby it is not required to prepare consolidated financial statements as the Company is included in publicly available consolidated financial statements for a larger group drawn up to the same date.

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 financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement 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](http://www.ocadogroup.com).

**New Standards, Amendments and Interpretations Adopted by the Company**

In the previous period, the Company adopted IFRS 9 "Financial Instruments" and IFRS 16 "Leases" for the first time. In May 2020, the IASB issued an amendment to IFRS 16 for Covid-19-Related Rent Concessions. The Company has considered this amendment to the published standard and has not elected to adopt the practical expedient.

In the current period, the Company has not adopted any new standards.

**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 2 December 2019 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
IAS 19	Employee benefits (amendments)	1 January 2019
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	1 January 2019

**New standards, amendments and interpretations not yet effective**

The following new standards, interpretations and amendments to published standards and interpretations have been issued but are not effective for the period beginning 2 December 2019, and have not been adopted early.

<b>Standard</b>	<b>Description</b>	<b>Effective date</b>
Amendments to IFRS 3	Reference to the Conceptual Framework	1 January 2020
IAS 1 and IAS 8	Definition of Material (Amendments to IAS 1 and IAS 8)	1 January 2020
IFRS 4, IFRS 7, IFRS 9, IFRS 16, IAS 39	Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	1 January 2021
Amendments to IAS 16	Property, Plant & Equipment - Proceeds before Intended Use	1 January 2022
Amendments to IAS 37	Onerous Contracts - Cost of Fulfilling a Contract	1 January 2022
Annual Improvements to IFRSs 2018-2020 Cycle	Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture	1 January 2022
Amendments to IAS 1	Classification of Liabilities as Current or Non-Current	1 January 2023
IFRS 17	Insurance Contracts	1 January 2023
IFRS 10 and IAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred

These standards, interpretations and amendments to published standards and interpretations are not expected to have a material effect on the Company's financial statements. The impact of all other IFRS Standards not yet adopted is not expected to be material.

#### **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.

#### **Revenue Recognition**

Revenue from the sale of goods is recognised when the customer obtains control of the goods, which is generally on delivery to the customer's home for Ocado deliveries.

**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.

**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 judgements 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.

*Goods Received not Invoiced*

At the period end the Company is required to estimate goods received not invoiced based on the stock purchases and invoices received. Confirmation of these amounts can take up to twelve months after the period end.

*Employee benefits*

In the second half of 2020, a new cash settled incentive scheme was implemented for senior leadership linked to long-term valuation creation, called Value Creation Plan ("VCP"). The accounting charge was determined under IFRS 2 "Share-based Payment" and there was no comparable charge in the prior year period.

Provisions for employee incentive schemes relate to the VCP, the Company is also liable to pay employer's NIC upon exercise.

### **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 a minimum of 12 months following the approval of these financial statements.

In assessing going concern and determining whether there are material uncertainties, the Directors take into account the Company's business activities, cash flows, solvency and liquidity positions and borrowing facilities, together with factors that are likely to affect its future development and position and the Company's principal risks and likely effectiveness of any mitigating actions (see more information on pages 3 to 15).

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.

Whilst the Company has been cash generative throughout the Covid-19 crises and had a net position of £150.5 million of cash and other financial assets as at the reporting date, given the global economic uncertainty of the Covid-19 pandemic, and taking into account the recent guidance issued by the FRC, the Directors have also considered the impact of Covid-19 for the going concern review.

The going concern assessment is based on the five year plan, updated for the 2021 financial period budget and actual financial performance for the period between the reporting date and date of approval of the financial statements.

The base case for the going concern assessment assumes a continuation of strong performance, albeit with some moderation to Covid-19 customer behaviour, and delivery of the roll-out of the CFC programme. In the event that the pace of growth in CFC roll-out is slower than anticipated, the impact on cash flows in the short-term would be positive and is therefore not considered a risk for the purposes of going concern. The Directors concluded that going concern and viability would be maintained under the base case scenario, with significant headroom.

Downside stress testing was undertaken to determine the sensitivity to going concern. The test reflected reduced revenues across the assessment period, assuming a slowdown in growth as a result of alteration to customer behaviour as a result of Covid-19 or delays to increasing CFC capacity. Capital expenditure was assumed to

continue being incurred as per the base case. Going concern could be maintained with a positive cash position. Further mitigating actions could be applied during the assessment period through the delay of capital expenditure for new CFC's which would further increase the cash position.

After making appropriate enquiries and having considered the business activities as set out in the Strategic Report on pages 3 to 15, 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 a minimum of twelve months from the date of approval of the financial statements. Accordingly, the financial statements have been prepared on the going concern basis.

## 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.

#### *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.

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. The allowances and rebates are included within cost of sales.

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 an Ocado Group entity. Distribution costs (known as the Ocado Smart Platform fee) 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, employment costs, 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.

**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 Profit/(Loss) before taxation**

	Note	52 weeks ended 29 November 2020 £ million	52 weeks ended 1 December 2019 £ million
Profit/(loss) before taxation is stated after charging/(crediting) the following:			
Cost of inventories recognised as an expense		1,457.8	1,106.3
Depreciation		35.0	15.7
Exceptional Items	2.6	(40.1)	(0.4)
Impairment of receivables		0.7	1.4
Net foreign exchange loss/(gain)		0.1	(0.1)
Employment costs	2.4	37.5	10.6

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

	52 weeks ended 29 November 2020 £ '000	52 weeks ended 1 December 2019 £ '000
Audit of the Company's financial statements	319.0	226.0
Non-audit services	-	-
<b>Total</b>	<b>319.0</b>	<b>226.0</b>

## 2.4 Employee information

During the period the average monthly number of employees was 362 (2019: 326) all being head office staff. Up until August 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 their employment costs.

	52 weeks ended 29 November 2020 £ million	52 weeks ended 1 December 2019 £ million
Employment costs	20.4	9.4
Value Creation Plan	14.0	-
Social security costs	0.9	0.8
Other pension costs	2.2	0.4
<b>Total</b>	<b>37.5</b>	<b>10.6</b>

	52 weeks ended 29 November 2020 £ '000	52 weeks ended 1 December 2019 £ '000
Directors' remuneration is disclosed as follows:		
Remuneration for qualifying services	2,147.3	83.4
Company pension contributions to defined contribution schemes	24.2	2.8

Remuneration disclosed above includes amounts paid to the highest paid executive director of £1,245.2k (2019:£42k) and defined contribution pension of £13.5k (2019:Nil). Defined contribution pension payments of £24.2k (2019: £2.8k) were made on behalf of two executive directors (2019: one).

## 2.5 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. No deferred tax is recognised if the temporary difference arises from the initial recognition of goodwill, or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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 forecasting of future taxable profits of the business and in applying an appropriate risk adjustment factor. The carrying value of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of that asset to be recovered. 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.

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.

**Taxation – Income statement**

	52 weeks ended 29 November 2020 £ million	52 weeks ended 1 December 2019 £ million
<b>Recognised in the income statement</b>		
UK corporation tax on profit/ (loss):	18.4	-
<b>Total current tax</b>	<b>18.4</b>	<b>-</b>
<b>Deferred tax:</b>		
Origination and reversal of temporary differences	7.5	(3.3)
Effect of change in UK Corporation Tax rate	(1.2)	-
<b>Total deferred tax</b>	<b>6.3</b>	<b>(3.3)</b>
<b>Income tax charge/ (credit)</b>	<b>24.7</b>	<b>(3.3)</b>

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 29 November 2020 £ million	52 weeks ended 1 December 2019 £ million
Profit/(Loss) before tax	146.0	(19.7)
Effective tax charge at the UK tax rate of 19 % (2019: 19%)	27.8	(3.7)
<b>Effect of:</b>		
Non-deductible items	0.2	0.1
Temporary differences on which no deferred tax is recognised	(2.1)	0.3
Group relief claimed	(1.2)	-
<b>Income tax charge/(credit)</b>	<b>24.7</b>	<b>(3.3)</b>

**Taxation – Balance sheet**

Movement in the deferred tax asset is as follows:

	Tax losses £ million	Accelerated capital allowances £ million	Share based payments £ million	Other short-term timing differences £ million	Total £ million
As at 2 December 2018	7.1	-	-	-	7.1
Recognised through Income Statement	3.1	0.2	-	-	3.3
As at 1 December 2019	10.2	0.2	-	-	10.4
Effect of change in UK corporation tax rate	1.2	-	-	-	1.2
Recognised through Income Statement	(11.4)	0.3	2.7	0.9	(7.5)
As at 29 November 2020	0.0	0.5	2.7	0.9	4.1

Previous legislation advised a reduction in the UK corporation tax rate to 17% from 1 April 2020 and this rate was applied, where applicable, to the Company's deferred tax balance at the prior year end. Legislation substantively enacted in the Finance Bill 2020 amended this rate to 19% with effect from April 2020. The March 2021 Budget announced a further increase to the main rate of corporation tax to 25% from April 2023. This rate had not been substantively enacted at the balance sheet date and therefore 19% has been applied, where applicable, to the Company's deferred tax balance as at the balance sheet date.

As at 29 November 2020 the Company had £nil of unutilised tax losses (2019: approximately £62 million) available for offset against future profits. A deferred tax asset of £nil (2019: £10.2 million) has been recognised in respect of £nil (2019: £60.0 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 £nil (2019: £2.0 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.

**2.6 Exceptional items**

	52 weeks ended 29 November 2020 £ million	52 weeks ended 1 December 2019 £ million
Andover CFC	(40.1)	(0.4)
Total exceptional credit	(40.1)	(0.4)

**Andover CFC**

In February 2019 a fire destroyed the Andover CFC, including the building, machinery and all inventory held on site. The exceptional income relates to the Business Interruption claim in relation to this fire.

**Section 3: Working capital****3.1 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.

**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.

**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.

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**

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 relevant conditions of IAS 38 have been demonstrated.

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. 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.

**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. The useful life is determined by management at the time the asset 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, useful 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
Other intangible assets	3 - 15 years, or the lease term if shorter

	Internally Generated Assets £ million	Other Intangible Assets £ million	Total Intangible Assets £ million
<b>Cost</b>			
At 1 December 2019	0.2	0.1	0.3
Additions	0.3	0.1	0.4
At 29 November 2020	0.5	0.2	0.7
<b>Accumulated amortisation</b>			
At 1 December 2019	-	-	-
Amortisation	(0.1)	-	(0.1)
At 29 November 2020	(0.1)	-	(0.1)
<b>Net book value</b>			
At 1 December 2019	0.2	0.1	0.3
At 29 November 2020	0.4	0.2	0.6

**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.

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.

### 3.3 Property, Plant and Equipment

#### Accounting Policies

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	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.

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 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 £ million	Fixtures, Fittings, Plant and Machinery £ million	Total £ million
<b>Cost</b>			
At 1 December 2019	3.8	12.8	16.6
Additions	24.0	30.6	54.6
Reclassification	6.8	(6.8)	-
Disposals	-	(0.2)	(0.2)
<b>At 29 November 2020</b>	<b>34.6</b>	<b>36.4</b>	<b>71.0</b>
<b>Accumulated depreciation</b>			
At 1 December 2019	(0.2)	-	(0.2)
Charge for the period	(0.7)	(1.3)	(2.0)
<b>At 29 November 2020</b>	<b>(0.9)</b>	<b>(1.3)</b>	<b>(2.2)</b>
<b>Net book value</b>			
At 1 December 2019	3.6	12.8	16.4
<b>At 29 November 2020</b>	<b>33.7</b>	<b>35.1</b>	<b>68.8</b>

### 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 £ million	Fixtures, fittings, plant and machinery £ million	Motor vehicles £ million	Total £ million
<b>Cost</b>				
At 1 December 2019	173.8	39.3	37.0	250.1
Additions	19.8	0.6	18.3	38.7
Disposals	-	-	(0.1)	(0.1)
<b>At 29 November 2020</b>	<b>193.6</b>	<b>39.9</b>	<b>55.2</b>	<b>288.7</b>
<b>Accumulated depreciation</b>				
At 1 December 2019	(8.6)	(2.0)	(4.4)	(15.0)
Charge for the period	(13.2)	(6.2)	(13.6)	(33.0)
Disposals	-	-	0.1	0.1
<b>At 29 November 2020</b>	<b>(21.8)</b>	<b>(8.2)</b>	<b>(17.9)</b>	<b>(47.9)</b>
<b>Net book value</b>				
At 1 December 2019	165.2	37.3	32.6	235.1
<b>At 29 November 2020</b>	<b>171.8</b>	<b>31.7</b>	<b>37.3</b>	<b>240.8</b>

### 3.5 Inventories

	29 November 2020 £ million	1 December 2019 £ million
Goods for resale	56.1	47.9

**3.6 Trade and other receivables**

	29 November 2020	1 December 2019
	£ million	£ million
Trade receivables	66.7	52.2
Less: provision for impairment of trade receivables	(1.1)	(1.7)
Net trade receivables	65.6	50.5
Other receivables	20.4	13.9
Prepayments	0.2	2.3
Amounts due from group undertakings	192.9	142.1
Accrued income	18.2	20.8
	297.3	229.6

Included in trade receivables is £56.3 million (2019: £43.0 million) due from suppliers in relation to commercial and media income. Within accrued income is £7.0 million (2019: £8.1 million) to be invoiced to suppliers in relation to supplier funded promotional activity and £10.5 million (2019: £10.8 million) to be invoiced to suppliers in relation to volume-related rebate amounts.

The Company has elected to apply the IFRS 9 “Financial Instruments” simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. To measure expected credit losses on a collective basis, trade receivables are grouped based on similar credit risks and ageing. The expected loss rates are based on the Company’s historical credit losses, adjusted for reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

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**

	29 November 2020	1 December 2019
	£ million	£ million
Cash at bank and in hand	155.9	32.9

### 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 2021.

### 3.9 Trade and other payables

	29 November 2020	1 December 2019
	£ million	£ million
Trade payables	102.7	77.5
Accruals	104.7	44.3
Amounts due to group undertakings	190.2	177.4
Corporation Tax	1.4	-
Other taxation and social security	0.6	0.4
Deferred income	4.7	3.9
	404.3	303.5

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.

### 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.

The Company considers whether any new contract entered into 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.

## Notes to the Financial Statements

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.

### 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.

### Lease incentives

Lease incentives primarily include upfront cash payments or rent-free periods. Lease incentives are included in the initial measurement of the right-of-use asset and lease liability.

	29 November 2020 £ million	1 December 2019 £ million
<b>Lease liabilities due:</b>		
Within one year	26.0	24.1
Between one and two years	24.9	22.1
Between two and five years	61.6	57.6
Over five years	138.4	134.1
<b>Total lease liabilities</b>	<b>250.9</b>	<b>237.9</b>
<b>Minimum lease payments due:</b>		
Within one year	38.7	27.8
Between one and two years	36.6	24.8
Between two and five years	90.7	62.6
Over five years	212.1	192.9
	378.1	308.1
<b>Less: future finance charges</b>	<b>(127.2)</b>	<b>(70.2)</b>
<b>Present value of lease liabilities</b>	<b>250.9</b>	<b>237.9</b>
Current	26.0	24.1
Non-current	224.9	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 £nil (2019: £nil)

### 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.

#### Ocado Retail Value Creation Plan (VCP)

During the period the VCP was established for the senior leadership team of the Company. The VCP will be settled in cash and includes a market-based performance condition relating to the value of the Company. Therefore, it has been accounted for as cash-settled in accordance with IFRS 2 "Share-based Payment".

The Plan has a performance period of six years from the date of grant, with awards vesting in accordance with a vesting schedule, subject to annual caps and underpins. The underpin is defined as growth of 9.0% per annum in the value of the Company, and there are three measurement dates at which awards can be "banked", the first being in July 2022. There is a maximum potential allocation of 4.00% of value above the hurdle, of which 3.50% was allocated to employees/seconded during the current period.

At each reporting date, following a valuation in accordance with IFRS 2, based on the updated actual performance of the Company and the accounting cost will be trued up until the last such date where the total accounting cost will reflect the final pay-out under the VCP. This means that the final accounting cost of the VCP will not be known until after the final measurement date. However, by using a Monte Carlo model, based on the latest available analyst valuation reports at each reporting date, the accrued amounts and the final cost of the VCP will converge.

During the period, the Company recognised the cost of the VCP in the Income Statement, which includes employer's NIC which is payable on the value of the cash award on vesting.

	Dilapidations £ million	VCP £ million	Total provisions, £ million
As at 1 December 2019	7.6	-	7.6
Additions	-	14.0	14.0
Charge to the income statement	0.5	-	0.5
As at 29 November 2020	8.1	14.0	22.1

### 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", then it classifies the sub-lease as an operating lease.

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.

## Section 4 — Capital structure and financing costs

### 4.1 Finance income and costs

	52 weeks ended 29 November 2020 £ million	52 weeks ended 1 December 2019 £ million
Interest on receivables under finance leases	-	0.1
Finance income	-	0.1
Interest on amounts due to group undertakings	-	(2.4)
Interest on lease liabilities	(13.5)	(8.0)
Other finance costs	-	(0.5)
Finance costs	(13.5)	(10.9)
Net finance costs	(13.5)	(10.8)

### 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 £ million	Share premium £ million
At 1 December 2019 and 29 November 2020	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 £ million	Fair value reserve £ million	Total other reserves £ million
At 2 December 2018, 1 December 2019 and 29 November 2020	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.

**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 29 November 2020 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 <sup>1</sup>	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.

<sup>1</sup>Paws & Purrs Limited's 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 (2019: Nil).

## 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 trade payables £ million	Included within amounts due to Group undertakings £ million	Included within amounts due from Group undertakings £ million
Ocado Operating Limited	-	(25.5)	14.3
Marks and Spencer	(1.5)	-	-

During the period the Company paid net recharges of £532.2 million (2019: £173.4 million) to Ocado Operating Limited for goods and services provided, including the Ocado Smart Platform fee.

During the period the Company paid £14.6 million (2019: Nil) to Marks and Spencer for goods provided.

During the period the Company recharged £0.1 million (2019: £0.1 million) to Ocado Innovation Limited for goods and services provided.

### 5.5 Post balance sheet events

On 7 January 2021, the Company announced that it had agreed to sell the entire share capital of Speciality Stores Limited, its pets business trading as Fetch, to Paws Holdings Limited. The disposal was completed on 31 January 2021.

### 5.6 Ultimate 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 largest and smallest group of undertakings to consolidate these financial statements at 29 November 2020. 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](http://www.ocadogroup.com).

## Company Information

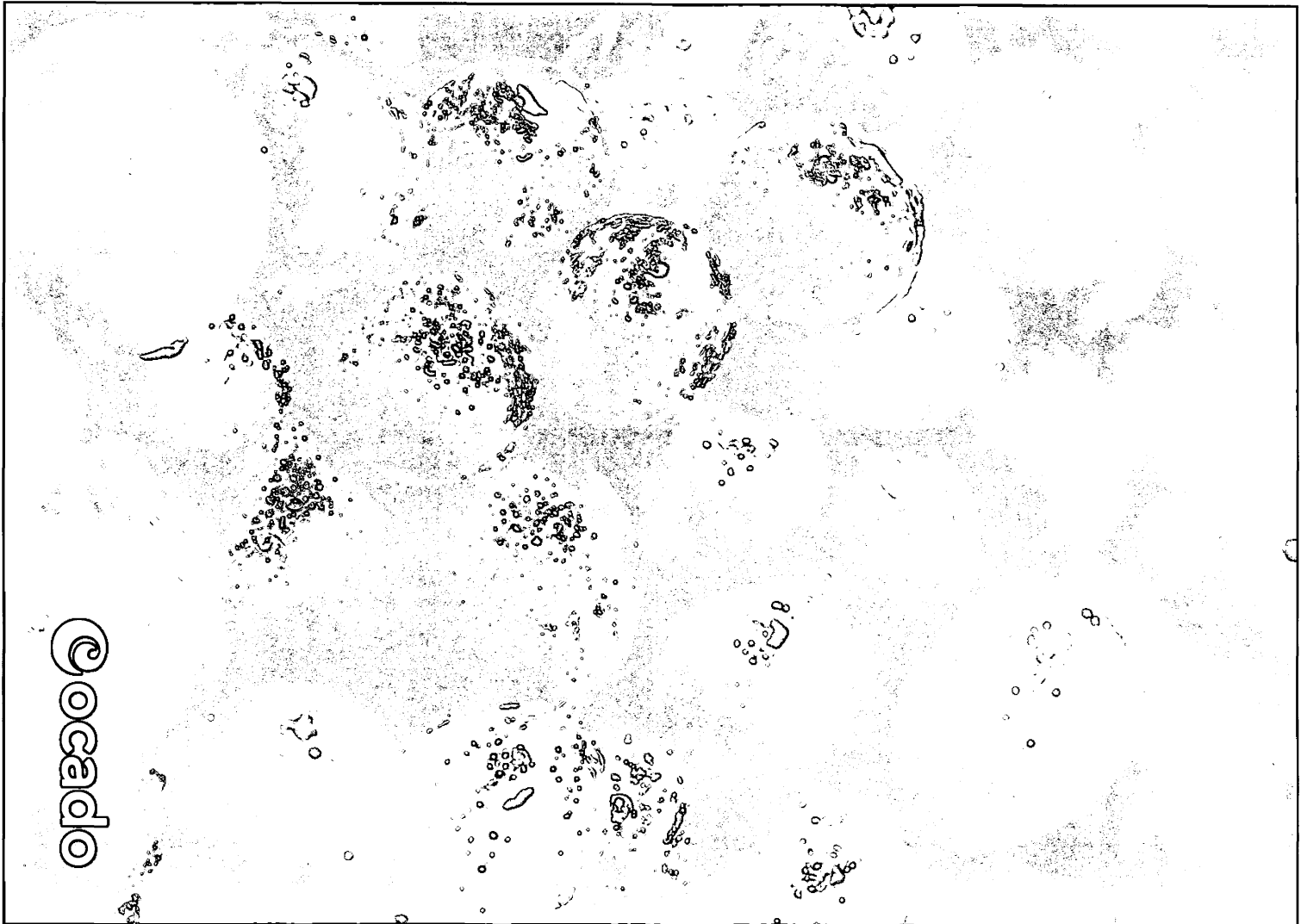
Directors  
Melanie Smith  
Niall McBride  
Tim Steiner  
Stephen Rowe  
Duncan Tatton-Brown  
Eoin Tonge  
Lawrence Hene  
Stuart Machin

Company Secretary  
Jonathan Wiseman

Company number  
03875000

Registered office  
Apollo Court  
2 Bishop Square  
Hatfield Business Park  
Hatfield  
Hertfordshire  
United Kingdom  
AL10 9EX

Independent auditor  
Deloitte LLP  
London



Coocado