



ocado

OCADO RETAIL LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE
53 WEEK PERIOD 28 NOVEMBER 2016 TO 3 DECEMBER 2017
COMPANY NUMBER 03875000

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Company information

Directors	Neill Abrams Mark Richardson Tim Steiner Duncan Tatton-Brown Luke Jensen (appointed 1 March 2018)
Company secretaries	Neill Abrams Robert Cooper
Company number	03875000
Registered office	Buildings One and Two Trident Place Mosquito Way Hatfield Hertfordshire United Kingdom AL10 9UL
Independent auditor	Deloitte LLP Statutory Auditor 2 New Street Square London United Kingdom EC4A 3BZ

Strategic Report

The Directors present their strategic report of Ocado Retail Limited (the "Company") for the 53 week period 28 November 2016 to 3 December 2017.

Principal activities

The Company's ultimate parent company is Ocado Group plc which, together with the Company and the direct and indirect subsidiaries of Ocado Group plc, form the "Ocado Group".

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

Financial review

The Ocado Group continued to make significant progress in creating a virtuous cycle between growth and developing a long-term sustainable and profitable business.

For the period to 3 December 2017 the Company maintained double-digit sales growth in a highly challenging and competitive grocery environment.

Continued growth in revenue to £1,303.5 million (2016: £1,144.8 million) was supported by improvements to our proposition to customers and an increase in the number of active customers in the period. These factors drove strong order growth to the current average orders of 264,000 per week at the period end. Gross profit rose by 14.3% year-on-year to £379.8 million (2016: £332.1 million).

Other income increased to £46.5 million (2016: £38.0 million). We continue to grow our income from media related activities ahead of the rate of increase in revenue as we increasingly engage our suppliers in media opportunities on our customer interfaces (including website, mobile apps and mobile websites).

The operating profit before exceptional items for the period was £17.2 million (2016: £11.2 million). Distribution costs and administrative expenses included costs for both the Ocado picking and delivery operations which are recharged from another Ocado Group entity.

The exceptional item of £451.6 million in the prior year is as a result of the write off of an intercompany balance following the issue of a deed of release relating to the Principal Promissory Note between the Company and some of the other entities within the Group.

Net finance income was £0.4 million (2016: £2.9 million), comprising £1.7 million (2016: £11.1 million) of finance income from balances due from Ocado Group entities. £1.3 million (2016: £8.2 million) of finance costs on balances due to Ocado Group entities represent all of the finance costs in the period.

Underlying net profits before tax of Ocado Retail Limited amounted to £17.6 million (2016: £14.1 million).

The Company holds £23.4 million of cash and cash equivalents at the year end (2016: £25.6 million).

Future developments

Powered by technology, our retail proposition is the heart of our business. We are committed to pushing the boundaries within online shopping and fulfilment to ensure we provide the best proposition to our customers.

The grocery market is changing rapidly and we are constantly analysing and assessing new opportunities within the industry. Be this new food trends, speciality brands or interface features, the agile nature of our business means we are able to react quickly to provide the consumer with what is important and valuable to them.

Strategic Report (continued)

Key performance indicators

The following table sets out a summary of selected unaudited operating information for 2017 and 2016.

	Period ended 3 December 2017	Period ended 27 November 2016	Variance %
Average orders per week	264,000	230,000	14.7
Average order size (£) ¹	107.28	108.10	0.0

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

¹ Average retail value of goods a customer receives (including VAT and delivery charge and including standalone orders) per order

The loyalty and retention of our customers is a priority and helps drive growth and capture market share. This can be achieved through excellent customer service, an extensive range of products and competitive prices. Order accuracy and orders delivered on time or early remained at what we believe to be industry leading levels of 98.8% and 95% respectively.

Strategic objectives

The UK grocery market is the largest of all retail segments and in the UK is forecast to grow by 15% over the next five years from £185 billion to £213 billion as suggested by research published by the Institute of Grocery Distribution ("IGD"). Alongside this substantial growth, the UK grocery market is going through a period of adaptation as the UK Government negotiates Brexit. This has accelerated the need for grocery retailers to look to ways to maximise efficiency and reduce costs within their operations to sustain profitability and further invest in their customer proposition.

After several years of ongoing price deflation within the grocery market we have seen the return of inflation, driven by retailers adjusting pricing following the fall in the value of sterling after the EU referendum. Opposing this, the market is experiencing labour cost inflation driven by a rise in the national living wage combined with a tightening of the labour market as some EU residents return to their home countries in the wake of sterling's decline. This will impact retailers across the UK and is likely to put pressure on margins.

The grocery landscape is changing rapidly, most significantly through the online channel. IGD forecast that over the next five years the online share of the market will rival hypermarkets at close to £16 billion. Its growth is being fuelled both by innovation from existing players and by new market entrants. This distinctive shift in consumer spend makes it essential for retailers to rethink their format structures and priorities.

Alongside online, IGD predicts continued significant growth from the hard discount sector which attracts and retains customers through deep discounts on a limited range of products. This places intense pressure on margins as established national chains adjust their pricing propositions in an attempt to differentiate and compete. In addition, some food retailers have attempted to sustain profitability in growth by investing in, or merging with, companies in other retail segments.

Across the industry we are seeing shoppers lead increasingly digitally dependent lives. It therefore becomes more vital to harness technology to improve the customer experience in a competitive market both online and in stores. We are seeing an increase in innovation, ranging from electronic in-store pricing to voice activated grocery ordering, to support this trend and it is becoming an important differentiator in managing costs and enhancing loyalty across the industry.

Given the low margins in the industry, retailers need to be cost efficient and behave rationally when deciding strategic priorities on price, proposition and channel offering. Regarding online, we have started to see changes as retailers re-examine their online propositions and focus on profit and sustainability over short-term growth. The size of the grocery market results in significant opportunities for retailers and throughout the industry we are seeing a continued focus on the customer proposition through differentiated formats, technology and service levels.

Ocado continues to grow in excess of the UK grocery market enabling operating leverage and stronger margins to reinvest into our proposition and remain an innovator within the market. Being a pure-play online retailer we are well placed to take advantage of the ongoing channel shift. As other retailers step back to readdress their offer, we continue to build capacity and capture market share. Our growth enables us to further invest in our industry-leading technology and IP to ensure we maintain our competitive advantage.

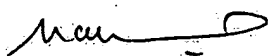
Strategic Report (continued)

Principal risks and uncertainties

The Company has identified the following principal risks and uncertainties facing it which the Board considers to be material to the development, performance, position or future prospects of the Company. These, together with the associated mitigations, where applicable, are summarised in the table below. However, 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.

Risks	Mitigation Action/Control
A risk of decline in high service levels	<ul style="list-style-type: none"> Weekly monitoring of the key indicators and the underlying drivers against published targets. A number of planned initiatives are intended to improve operational performance
Failure to develop retail proposition to appeal to broader customer base and sustain growth rates	<ul style="list-style-type: none"> Continuation of LPP basket matching price comparison and competitive pricing Growth of the Ocado's own-label range alongside continued provision of the Waitrose range Growth of branded ranges and expansion of supplier base Alternative sourcing scenarios considered in the event that the Waitrose sourcing relationship is not renewed when it expires in 2020 Continuation of investment and optimisation of the market channels to acquire new customers Continued improvement of webshop and apps
A risk of a food or product safety incident	<ul style="list-style-type: none"> Experienced legal, food and product technology professionals monitor compliance against policies and procedures. Supplier approval and certification process Food and product safety policies and quality management with appropriate operational procedures
A risk of changes in regulations impacting the retail business	<ul style="list-style-type: none"> Regular monitoring of regulatory developments to ensure that changes are identified Monitoring operational performance to minimise environmental impact
Risk of major cyber-attack or data loss	<ul style="list-style-type: none"> IT systems are structured to operate reliably and securely The security of our IT systems is regularly tested by third parties; security monitoring capabilities have been expanded No customer payment card data is held in Ocado's databases Access to customer personal data is restricted to those who need this information as part of their job GDPR compliance programme is being carried out
Business interruption	<ul style="list-style-type: none"> Dedicated engineering teams on site with daily maintenance programmes to support the continued operation of equipment Disaster recovery testing and business continuity plans continue to be progressed and updated High level of protection for CFCs and equipment, combined with business interruption insurance to transfer residual risks

Approved by the Board and signed on its behalf by:



Neill Abrams
Director
31 May 2018

Directors' report

The Directors present their report and the audited financial statements of Ocado Retail Limited (the "Company") for the 53 week period ended 3 December 2017.

Political contributions

No political donations were made by the Company to any political party, organisation or candidate during the period (2016: £nil).

Charitable donations

No charitable donations were made by the Company during the period (2016: £nil).

Board of Directors

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

Tim Steiner
Neill Abrams
Mark Richardson
Duncan Tatton-Brown
Luke Jensen (appointed 1 March 2018)

Directors' interests

The Directors' did not have beneficial interests in the shares of the Company at the end of the period. The Directors' beneficial interests in the shares of the ultimate parent company, Ocado Group plc, are disclosed in full in the annual report and financial statements of that company. Copies of those financial statements 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.

Directors' insurance and indemnities

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

Research and development and future developments

No research and development is undertaken by this entity.

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

Risk Management

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

Results and dividends

The Company's results for the period are set out in the income statement on page 9. The Directors do not propose to pay a dividend for the period (2016: £nil).

Post balance sheet events

Events occurring after the balance sheet date that affect the Company are disclosed in Note 5.5 to the financial statements.

Statement of Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101"); United Kingdom generally accepted accounting practice (United Kingdom accounting standards and applicable law). 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 profit or loss of the company for that period.

Directors' report (continued)

Statement of Directors' responsibilities (continued)

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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

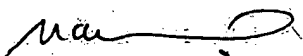
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies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

Disclosure of information to auditors

In accordance with s418 of the Companies Act 2006, each Director who held office at the date of the approval of this Directors' Report confirms that, so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware, and that each Director has taken all of the steps that they ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information. Deloitte has expressed their willingness to continue in office as auditor and appropriate arrangements have been put in place for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.

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

Approved by the Board and signed in its behalf by



Neill Abrams
Director
31 May 2018

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:

- give a true and fair view of the state of the company's affairs as at 03 December 2017 and of its profit for the 53 week period from 28 November 2016 to 3 December 2017;
- 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 of Ocado Retail Limited (the 'company') which comprise:

- the income statement;
- the balance sheet;
- the statement of changes in equity;
- the related notes to the financial statements 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 FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Other information

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

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

We have nothing to report in respect of these matters.

Independent auditor's report to the members of Ocado Retail Limited (continued)

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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.

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 year 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.

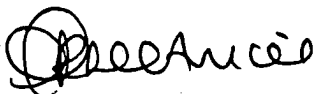
In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

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.



Mark Lee-Amies (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London
31 May 2018

**Income statement
for the 53 week period ended 3 December 2017**

		53 week Period ended 3 December 2017	52 week Period ended 27 November 2016
	Note	£m	£m
Revenue	2.3	1,303.5	1,144.8
Cost of sales		(923.7)	(812.7)
Gross profit		379.8	332.1
Distribution costs		(355.9)	(308.8)
Administrative expenses		(53.2)	(50.1)
Other operating income		46.5	38.0
Operating profit before exceptional items		17.2	11.2
Exceptional items	2.6	-	(451.6)
Operating profit/(loss)	2.4	17.2	(440.4)
Interest receivable and similar income	4.1	1.7	11.1
Interest payable and similar charges	4.1	(1.3)	(8.2)
Profit/(loss) on ordinary activities before taxation		17.6	(437.5)
Tax on profit/(loss) on ordinary activities	2.7	-	0.2
Profit/(loss) for the financial year		17.6	(437.3)
Other comprehensive income:			
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income/(expense) for the year		17.6	(437.3)

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

		53 weeks ended 3 December 2017	52 weeks ended 27 November 2016
	Note	£m	£m
Operating profit/(loss)		17.2	(440.4)
Adjustments for:			
Exceptional items	2.6	-	451.6
EBITDA		17.2	11.2

**Balance sheet
as at 3 December 2017**

	Note	3 December 2017 £m	27 November 2016 £m
Non-current assets			
Deferred tax asset	2.7	7.0	7.0
		7.0	7.0
Current assets			
Inventories	3.2	39.8	36.8
Trade and other receivables	3.3	405.9	277.0
Cash and cash equivalents	3.4	23.4	25.6
		469.1	339.4
Total assets		476.1	346.4
Current liabilities			
Trade and other payables	3.5	(411.6)	(299.5)
		(411.6)	(299.5)
Net current assets		57.5	39.9
Total assets less current liabilities		64.5	46.9
Capital and reserves			
Share capital	4.2		
Share premium	4.2	360.3	360.3
Other reserves	4.2	9.2	9.2
Profit and loss account		(305.0)	(322.6)
Total shareholders' funds		64.5	46.9

The financial statements on pages 9 to 21 were authorised for issue by the Board of Directors and signed on its behalf by:



Neill Abrams
Director
Ocado Retail Limited
Company Registration Number 03875000 (England and Wales)
31 May 2018

**Statement of changes in equity
for the 53 weeks ended 3 December 2017**

	Share capital £m	Share premium £m	Other reserves £m	(Accumulated losses)/retained earnings £m	Total equity £m
Balance at 29 November 2016	-	360.3	9.2	114.7	484.2
Loss for the financial year	-	-	-	(437.3)	(437.3)
Other comprehensive income	-	-	-	-	-
Total comprehensive expense for the year ended 27 November 2016	-	-	-	(437.3)	(437.3)
Balance at 27 November 2016	-	360.3	9.2	(322.6)	46.9
Profit for the financial year	-	-	-	17.6	17.6
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year ended 3 December 2017	-	-	-	17.6	17.6
Balance at 3 December 2017	-	360.3	9.2	(305.0)	64.5

Notes to the financial statements

Section 1- Basis of preparation

General information

Ocado Retail Limited (hereafter "the Company") is a private company limited by shares, and incorporated and domiciled in England and Wales. The Company changed its name from Ocado Limited to Ocado Retail Limited effective 16 June 2014. The address of its registered office is Buildings One & Two, Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9UL. The financial period represents the 53 weeks ended 3 December 2017. The prior financial period represents the 52 weeks ended 27 November 2016.

Basis of preparation

The Company meets the definition of a qualifying entity under Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101") issued by the Financial Reporting Council and has early adopted this standard.

The financial statements have been prepared in accordance with FRS 101 as issued by the Financial Reporting Council, and with those parts of the Companies Act 2006 applicable to companies reporting under FRS 101.

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

The consolidated financial statements of Ocado Group plc 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.

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 its ultimate parent, Ocado Group plc. The consolidated financial statements are prepared under International Financial Reporting Standards (IFRS's) and International Financial Reporting Standards Interpretation Committee (IFRIC) interpretations as endorsed by the European Union ("IFRS-EU"). The disclosure exemptions adopted, where applicable, are the requirements of:

- IFRS 7 Financial Instruments: Disclosures
- IFRS 13 *Fair Value Measurement*, paragraphs 91 to 99
- IAS 1 *Presentation of Financial Statements* to present comparative information in respect of paragraph 79(a)(iv) and paragraphs 134 to 136 of IAS 1 *Presentation of Financial Statements*, 73(e) of IAS16 *Property, Plant and Equipment*, paragraph 118(e) of IAS 38 *Intangible Assets*
- IAS 7 Statement of Cash Flows
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors paragraph 30 to 31
- IAS 24 *Related Party Disclosures* paragraph 17 and the requirement under this standard to disclose related party transactions entered into between two or more members of the Ocado Group where any subsidiary within the Ocado Group which is party to the transaction is wholly owned by such a member.

The following new standards are not yet effective and the impact on the Company is currently under review:

- IFRS 15 "Revenue from Contracts with Customers" (endorsed by the EU) provides on the recognition and measurement of revenue. The standard establishes a principles-based approach for revenue recognition and is based on the concept of recognising revenue for obligations only when they are satisfied and the control of goods or services is transferred. This applies to all contracts with customers except those in the scope of other standards. This new standard will replace IAS 18 "Revenue" and is effective for annual periods beginning on or after 1 January 2018 unless adopted early. The Company is currently reviewing the impact of IFRS 15.
- IFRS 16 "Leases" provides guidance on the classification, recognition and measurement of leases to help provide useful information to the users of financial statements. The main aim of this standard is to ensure all leases will be reflected on the balance sheet, irrespective of substance over form. The new standard will replace IAS 17 "Leases" and is effective for annual periods beginning on or after 1 January 2019 unless adopted early. The Company is currently reviewing the impact of IFRS 16.

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.

Notes to the financial statements (continued)

Section 1 – Basis of preparation (continued)

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 year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, 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.

Critical estimates, judgements and assumptions

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

Key estimation uncertainties

Recognition of deferred tax assets

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

There were no significant judgements noted in preparation of the accounts.

Going concern basis

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

The Company has cash reserves, whilst the Ocado Group maintains a mixture of short and medium-term debt and lease finance arrangements that are designed to ensure that it has sufficient available funds to finance its operations. The Board monitors rolling forecasts of the Company's 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 Ocado Group breaching borrowing limits or covenants (where applicable) on any of its borrowing facilities.

After making appropriate enquiries and having considered the business activities as set out in the Strategic report on page 2, the facts described above and the Company's principal risks and uncertainties, the Directors are satisfied that the Company and the Ocado Group as a whole have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

Section 2 – Results for the year

2.1 Profit/(loss) before tax

Accounting policies

Revenue

The Group follows the principles of IAS 18 "Revenue", in determining appropriate revenue recognition policies.

Revenue comprises the fair value of consideration received or receivable for the sale of goods and services. 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. Delivery and carrier bag receipts are included in revenue.

Revenue from the sale of goods is always recognised when the significant risks and rewards of ownership of the goods have been transferred to the customer, which is upon delivery of the goods to the customer's home. Revenue is recorded when the collection of the amount due is reasonably assured. Income from "Ocado Smart Pass", the Group's discounted pre-pay membership scheme, is recognised in the period to which it relates, on an accruals basis.

2.1 Profit/loss before tax (continued)

Cost of sales

Cost of sales represents the cost of groceries and other products the Group sells including the costs of plastic carrier bags, 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, advertising income and volume-related rebates are received in connection with the promotion or purchase of goods for resale from those suppliers. The allowances and rebates are included in cost of sales.

Promotional allowances

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

Volume-related rebates

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

Uncollected commercial income

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

Distribution costs

Distribution costs are charged by a different company in the Ocado Group to the Company. Distribution costs consist of all the costs incurred, excluding product costs, to the point of sale. In most cases, this is the customer's home which are charged to the Company by a different entity within the Ocado Group. 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 are both those recharged by another company in the Ocado Group to the Company, and costs incurred directly by the Company. Administrative expenses consist of all advertising and marketing expenditure (excluding vouchers), share-based payments costs, employment costs of all central functions, which include board, legal, finance, human resources, marketing and procurement, rent 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 the Webshop, commission income, rental income, sublease payments receivable and amounts receivable not in the ordinary course of business. 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

The Company has adopted an income statement format which seeks to highlight significant items within the Company results for the year. The Company believes this format is useful as it highlights one-off items, such as material set-up costs for new fulfilment warehouses, reorganisation and restructuring costs, profit or loss on disposal of operations, and impairment of assets. Exceptional items, as disclosed on the face of the income statement, are items that due to their material and/or non-recurring nature, as determined by management, 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. It is determined by management that each of these items relates to events or circumstances that are non-recurring in nature.

The Company applies judgement in identifying the significant non-recurring items of income and expense that are recognised as exceptional to help provide an indication of the Company's underlying business performance. Examples of items that the Company considers as exceptional include, but are not limited to, material costs relating to the opening of a new warehouse, corporate restructurings and any material costs, outside of the normal course of business as determined by management.

Notes to the financial statements (continued)

2.2 Segmental reporting

The principal activity of the Company is grocery retailing in the United Kingdom. The Company is not reliant on any major customer for 10% or more of its revenue.

In accordance with IFRS 8 "Operating Segments", an operating segment is defined as a business activity whose operating results are reviewed by the chief operating decision-maker and for which discrete information is available. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, as required by IFRS 8. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Directors.

The principal activities of the Company are currently managed as one segment. Consequently, all activities relate to this segment. The chief operating decision-makers' main indicator of performance of the segment is EBITDA, which is reconciled to operating profit below the income statement.

2.3 Gross sales

	53 weeks ended 3 December 2017	52 weeks ended 27 November 2016
	£m	£m
Revenue	1,303.5	1,144.8
VAT	82.6	73.8
Marketing vouchers	20.5	15.9
Gross sales	1,406.6	1,234.5

2.4 Operating (loss) / profit

		53 weeks ended 3 December 2017	52 weeks ended 27 November 2016
	Note	£m	£m
Operating (loss) / profit is stated after charging/(crediting) the following:			
Cost of inventories recognised as an expense		908.6	798.4
Exceptional items	2.6	-	451.6
Impairment of receivables		(0.2)	1.1
Net foreign exchange gains		0.2	0.3

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

	53 weeks ended 3 December 2017	52 weeks ended 27 November 2016
	£'000	£'000
Audit services		
- Statutory Company audit	89.0	83.0
Non-audit services		
- Advisory support	-	-
	89.0	83.0

2.5 Employee information

All staff, including directors, are employed by another Group entity, with the Company recharged for its share of employment costs incurred by other Group entities.

2.6 Exceptional items

	53 weeks ended 3 December 2017	52 weeks ended 27 November 2016
	£m	£m
Corporate restructuring – release of intercompany receivable	-	451.6

Notes to the financial statements (continued)

2.7 Tax on profit / (loss) on ordinary activities

Accounting policies

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

Current taxation

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

Deferred taxation

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

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

Taxation – Income statement

	53 weeks ended 3 December 2017 £m	52 weeks ended 27 November 2016 £m
Recognised in the income statement		
Current tax:		
Adjustments in respect of prior periods		(0.1)
UK corporation tax on profits of the period	-	-
Total current tax	-	(0.1)
Deferred tax:		
Changes in recoverable amounts of deferred tax assets	0.8	(0.1)
Origination and reuse of temporary differences	(0.8)	
Total deferred tax	-	(0.1)
Income tax credit	-	(0.2)

The tax on the Company's loss before tax differs from (2016: differs from) the theoretical amount that would arise using the weighted average tax rate applicable to losses of the Company as follows:

	53 weeks ended 3 December 2017 £m	52 weeks ended 27 November 2016 £m
Profit / (loss) before tax	17.6	(437.5)
Effective tax charge at the UK tax rate of 19.33% (2016: 20%)	3.4	(87.4)
Effect of:		
Non-deductible items	-	89.4
Utilisation of brought forward losses	(0.8)	(0.7)
Temporary differences on which no deferred tax is charged	0.5	0.7
Group relief claimed	(3.7)	(2.1)
Adjustments in respect of prior periods	-	(0.1)
Income tax credit	-	(0.2)

As enacted in Finance Act 2016, the standard rate of corporation tax in the UK changed from 20% to 19% with effect from 1 April 2017. Accordingly, the effective rate for the period is 19.33% (2016: 20%).

Notes to the financial statements (continued)

2.7 Tax on (loss) / profit on ordinary activities (continued)

Balance sheet

Movement in the deferred tax asset is as follows:

	Tax losses carry-forwards
	£m
As at 30 November 2014	6.9
Effect of change in UK corporation tax rate	-
Tax losses recognised through the income statement	-
As at 29 November 2015	6.9
Effect of change in UK corporation tax rate	-
Tax losses recognised through the income statement	0.1
As at 27 November 2016	7.0
Effect of change in UK corporation tax rate	-
Tax losses recognised through the income statement	-
As at 3 December 2017	7.0

As enacted in the Finance Act (No.2) 2016, the main rate of corporation tax will change to 17% from 1 April 2020. Deferred tax has been provided at the rate at which the deferred tax asset is expected to be utilised.

Movement in the unrecognised deferred tax asset is analysed below:

	Tax losses carry forward	Other short-term timing differences	Total
	£m	£m	£m
As at 1 December 2014	5.0	-	5.0
Adjustment in respect of prior periods	-	-	-
Effect of change in UK corporation tax rate	(0.5)	-	(0.5)
Potential movement in the period unrecognised through:			
- Income statement	(0.4)	-	(0.4)
As at 29 November 2015	4.1	-	4.1
Adjustment in respect of prior periods	-	-	-
Effect of change in UK corporation tax rate	-	-	-
Potential movement in the period unrecognised through:			
- Income statement	0.8	-	0.8
As at 27 November 2016	4.9	-	4.9
Adjustment in respect of prior periods	(1.5)	-	(1.5)
Effect of change in UK corporation tax rate	-	-	-
Potential movement in the period unrecognised through:			
- Income statement	(1.9)	1.1	(0.8)
As at 3 December 2017	1.5	1.1	2.6

As at 3 December 2017 the Company had approximately £49.9 million of unutilised tax losses (2016: approximately £57.5 million) available for offset against future profits. A deferred tax asset of £7.0 million (2016: £7.0 million) has been recognised in respect of £41.2 million (2016: £38.8 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 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.

Section 3 — Operating assets and liabilities

3.1 Working capital 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". Goods held for resale and consumables are valued using the weighted average cost basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. It also takes into account slow-moving, obsolete and defective inventory. Fuel stocks are valued at calculated average cost. Costs include all direct expenditure and other appropriate attributable costs incurred in bringing inventories to their present location and condition. There has been no security granted over inventory unless stated otherwise.

The Company has a mix of grocery and non-food items within inventory which have different characteristics. For example, grocery lines have high inventory turnover, while non-food lines are typically held within inventory for a longer period of time and so run a higher risk of obsolescence. As inventories are carried at the lower of cost and net realisable value, this requires the estimation of the eventual sales price of goods to customers in the future. Judgement is applied when estimating the impact on the carrying value of inventories such as slow-moving, obsolete and defective inventory, which includes reviewing the quantity, age and condition of inventories throughout the year.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets. The Company's loans and receivables comprise "Trade and other receivables" and "Cash and cash equivalents" in the balance sheet.

Trade and other receivables

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. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement within administrative expenses. When a trade receivable is considered uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the income statement. The outcome depends on future events which are by their nature uncertain. In assessing the likely outcome, management bases its 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, short-term deposits with a maturity of three months or less at the balance sheet date and bank overdrafts. Bank overdrafts are repayable on demand and form an integral part of the Company's cash management. They are therefore included as a component of cash and cash equivalents.

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.

Notes to the financial statements (continued)

Section 3 — Operating assets and liabilities (continued)

3.2 Inventories

	3 December 2017	27 November 2016
	£m	£m
Goods for resale	39.8	36.8

Write-down of inventories recognised as a charge amounted to £nil million (2016: £0.1 million) in the income statement. No security has been granted over inventories.

3.3 Trade and other receivables

	Note	3 December 2017	27 November 2016
		£m	£m
Trade receivables		22.6	13.7
Less: provision for impairment of trade receivables		(2.6)	(2.8)
Net trade receivables		20.0	10.9
Other receivables		5.0	1.9
Prepayments		1.3	0.1
Amounts due from group undertakings	5.4	362.1	244.8
Accrued income		17.5	19.3
		405.9	277.0

Included in trade receivables is £12.2 million (2016: £5.9 million) due from suppliers in relation to commercial and media income. As at 7 January 2018 £10.3 million had been received. Included in accrued income is £8.6 million (2016: £10.8 million) to be invoiced to suppliers in relation to supplier funded promotional activity and £8.0 million (2016: £7.0 million) to be invoiced to suppliers in relation to volume-related rebate amounts. As at 7 January 2018 £7.6 million of the accrued income was invoiced.

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

3.4 Cash and cash equivalents

	3 December 2017	27 November 2016
	£m	£m
Cash at bank and in hand	23.4	25.6

3.5 Trade and other payables

	Note	3 December 2017	27 November 2016
		£m	£m
Trade payables		79.7	83.1
Accruals		36.5	31.4
Amounts due to group undertakings	5.4	291.4	182.0
Deferred income		4.0	3.0
		411.6	299.5

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

Notes to the financial statements (continued)

Section 4 — Capital structure and financing costs

4.1 Finance income and costs

Finance income and costs

	53 weeks ended 3 December 2017 £m	52 weeks ended 27 November 2016 £m
Interest on amounts due from group undertakings	1.7	11.1
Finance income	1.7	11.1
Interest on amounts due to group undertakings	(1.3)	(8.2)
Other finance costs	-	-
Finance costs	(1.3)	(8.2)
Net finance income	0.4	2.9

4.2 Share capital and reserves

The number of authorised, allotted and called up share capital and share premium accounts are set out below:

	Ordinary shares Number	Share Capital £m	Share premium £m
At 27 November 2016	100	-	360.3
At 3 December 2017	100	-	360.3

All shares are fully paid and have equal voting rights. Each of the shares has a nominal value of £0.01. The movements in reserves other than share premium are set out below:

	Note	Capital contributions reserve £m	Fair value reserve £m	Total other reserves £m
At 29 November 2015		9.0	0.2	9.2
Capital contributions - Group share-based payment expense	2.5	-	-	-
Fair value movement on derivative financial instruments		-	-	-
At 27 November 2016		9.0	0.2	9.2
Capital contributions - Group share-based payment expense	2.5	-	-	-
Fair value movement on derivative financial instruments		-	-	-
At 3 December 2017		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 Group equity settled share-based payment charge in accordance with IFRS 2 'Share-based payments'.

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 the prior period.

4.3 Share-based payments

For more information on the Group's share schemes, see Notes 2.6 and 4.10 to the consolidated financial statements, which can be found at www.ocadogroup.com.

Notes to the financial statements (continued)

Section 5 – Other notes

5.1 Subsidiaries

The Company has no subsidiaries.

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 (2016: £nil).

Operating lease commitments

The Company has no operating lease commitments (2016: none).

5.3 Contingent liabilities

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

5.4 Related party transactions

Group undertakings

The Company has balances outstanding following the corporate restructuring in addition to loans held, both with group undertakings. Interest income of £1.7 million (2016: £11.1 million) was earned on these balances at market related interest rates during the period.

Transactions with group undertakings	3 December 2017 £m	27 November 2016 £m
Capital contributions from parent:		
- Group share-based payment charge	-	-
Increase / (decrease) in amounts due from group undertakings	117.3	490.8
(Increase) / decrease in amounts due to group undertakings	(109.4)	(63.3)

	3 December 2017 £m	27 November 2016 £m
Year-end balances arising from transactions with group undertakings		
Receivables:		
Loans and receivables due from group undertakings	362.1	244.8
Payables:		
Loans and payables due to group undertakings	291.4	182.0

No other transactions that require disclosure under IAS 24 have occurred during the current financial period.

5.5 Post balance sheet events

There were no post balance sheet events.

5.6 Ultimate parent undertaking and controlling party

The immediate parent undertaking is Ocado Holdings Limited, and the ultimate controlling party is Ocado Group plc, a company incorporated in England and Wales. Ocado Group plc is the parent undertaking of the largest and smallest group of undertakings to consolidate these financial statements at 3 December 2017. The address of the smallest and largest undertaking's registered office is the same and is disclosed in the Directors' report.

The consolidated financial statements of Ocado Group plc can be obtained from Buildings One & Two, Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9UL.