



OCADO RETAIL LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE
52 WEEK PERIOD 4 DECEMBER 2017 TO 2 DECEMBER 2018
COMPANY NUMBER 03875000

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Company Information

Directors	Neill Abrams Luke Jensen Mark Richardson Tim Steiner Duncan Tatton-Brown
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 1 New Street Square London United Kingdom EC4A 3HQ

Strategic Report

The Directors present their strategic report of Ocado Retail Limited (the "Company") for the 52 week period 4 December 2017 to 2 December 2018.

Principal activities

The Company was incorporated on 11 November 1999 and is a wholly-owned subsidiary of Ocado Holdings Limited.

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

For the period to 2 December 2018 the Company maintained significant sales growth in a highly challenging and competitive grocery environment.

Continued growth in revenue to £1,428.2 million (2017: £1,303.5 million) was supported by improvements to the Company's proposition to customers and an increase in the number of active customers in the period. These factors drove strong order growth to the current average orders of 296,000 (2017: 264,000) per week at the period end. Gross profit rose by 9.1% year-on-year to £414.3 million (2017: £379.8 million).

Other income increased to £55.6 million (2017: £46.5 million). The Company continues to grow income from media-related activities ahead of the rate of increase in revenue as it increasingly engage its suppliers in media opportunities on its customer interfaces (including website, mobile apps and mobile websites).

The operating profit for the period was £6.9 million (2017: £17.2 million). Distribution costs and administrative expenses included costs for both the Ocado picking and delivery operations which are recharged from another Ocado Group entity.

Net finance costs were £4.4 million (2017: £0.4 million income), comprising £nil (2017: £1.7 million) of finance income from balances due from Ocado Group entities. £4.4 million (2017: £1.3 million) of finance costs on balances due to Ocado Group entities represent all of the finance costs in the period.

Net profits before tax of Ocado Retail Limited amounted to £2.5 million (2017: £17.6 million).

The Company holds £20.6 million of cash and cash equivalents at the year end (2017: £23.4 million).

Future developments

On 27 February 2019 it was announced that a 50% shareholding of the Company would be sold to Marks and Spencer Group Plc ("M&S") for up to £750 million. On the same date it was also announced that, from September 2020 at the latest, the Company will benefit from access to M&S's brand, products and customer database following the termination of the current Waitrose sourcing agreement and migration of the Company's sourcing to M&S.

Key performance indicators

The following table sets out a summary of selected unaudited operating information for 2018 and 2017.

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

	Period ended 2 December 2018	Period ended 3 December 2017	Variance %
Gross Sales (£m)	1,541.6	1,406.6	9.6
EBITDA (£m)	6.9	17.2	(59.9)
Average orders per week	296,000	264,000	12.1
Average order size (£) ¹	106.85	107.28	(0.4)

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

Ocado Group is changing the way the world shops, demonstrating superior service, range, value and ease of use, all focused on offering its customers a world-class service. This breeds loyalty and attracting and retaining more customers drives the Ocado Group's growth and market share. Order accuracy and orders delivered on time or early remained at what we believe to be industry-leading levels of 98.8% (2017: 98.8%) and 94.8% (2017: 95.0%) respectively.

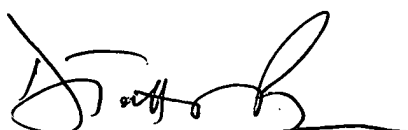
Strategic Report (continued)

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
Risk of decline in high service levels.	<ul style="list-style-type: none"> - Weekly monitoring of the key indicators and the underlying drivers against targets.
Failure to maintain a retail proposition which appeals to a broad 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 own-label range. - Growth of branded ranges and expansion of supplier base. - Continuation of investment and optimisation of the marketing channels to acquire new customers. - Continued improvement of webshop and apps.
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 operational procedures.
Risk of changes in regulations impacting the business	<ul style="list-style-type: none"> - Regular monitoring of regulatory developments to ensure that changes are identified.
Risk of negative implications caused by final Brexit terms such as increase in import costs or difficulty in hiring employees.	<ul style="list-style-type: none"> - Regular monitoring of government reporting on Brexit negotiations to understand impact on the business including the Company's ability to hire employees from the EU, an assessment of trade tariffs on imported goods and impact of disharmonisation of UK and EU regulatory standards in a range of areas. - The Company is taking a range of steps to mitigate the impact of Brexit on the Company including for supply of products and materials and for changes to regulation.
Risk of major cyber attack or data loss impacting the business.	<ul style="list-style-type: none"> - IT systems are structured to operate reliably and securely. The security of the Company's IT systems is regularly tested by third parties. - An information security governance programme is helping increase security and privacy internal controls. - No customer payment card data is held in Company's databases. - A new Data Protection Officer was hired to oversee the Company's GDPR compliance programme.
Business interruption	<ul style="list-style-type: none"> - IT systems are structured to operation reliably and securely. - 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.

Approved by the Board and signed on its behalf by:



Duncan Tatton-Brown

Director

Date 26 April 2019

Directors' Report

The Directors present their report and the audited financial statements of Ocado Retail Limited (the "Company") for the 52 week period ended 2 December 2018.

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:

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

Political contributions

No political donations were made by the Company to any political party, organisation or candidate during the period (2017: £nil).

Directors' interests

The Directors did not have beneficial interests in the shares of the Company at the end of the period. The Directors' beneficial interests 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 3.

Risk management

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

Results and dividends

The Company's results for the period are set out in the Statement of Comprehensive Income on page 8. The Directors do not propose to pay a dividend for the period (2017: £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 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 year. 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.

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; 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.

Disclosure of information to the auditor

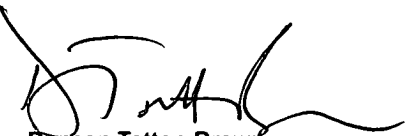
Each of the persons who is a director at the date of approval of this annual report confirms that:

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

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

Deloitte LLP have 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.

Approved by the Board and signed in its behalf by



Duncan Tatton-Brown
Director
Date 26 April 2019

Independent Auditor's Report to the Member 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 2 December 2018 and of its profit for the 52 week period from 4 December 2017 to 2 December 2018;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

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

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Other information

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

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

We have nothing to report in respect of these matters.

Independent Auditor's Report to the Member 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial 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.

Use of our report

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

M. R. Lee-Amies

Mark Lee-Amies (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London
30 April 2019

Statement of Comprehensive Income
for the 52 weeks ended 2 December 2018

	Notes	52 weeks ended 2 December 2018 £m	53 weeks ended 3 December 2017 £m
Revenue	2.2, 2.3	1,428.2	1,303.5
Cost of sales		(1,013.9)	(923.7)
Gross profit		414.3	379.8
Other income		55.6	46.5
Distribution costs		(401.8)	(355.9)
Administrative expenses		(61.2)	(53.2)
Operating profit	2.4	6.9	17.2
Finance income	4.1	-	1.7
Finance costs	4.1	(4.4)	(1.3)
Profit before taxation		2.5	17.6
Taxation	2.6	(0.3)	-
Profit for the year and total comprehensive income		2.2	17.6

All amounts are derived from continuing operations.

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

	Note	52 weeks ended 2 December 2018 £m	53 weeks ended 3 December 2017 £m
Operating profit		6.9	17.2
EBITDA		6.9	17.2

Balance Sheet
as at 2 December 2018

	Notes	2 December 2018 £m	3 December 2017 £m
Non-current assets			
Deferred tax asset	2.6	7.1	7.0
		7.1	7.0
Current assets			
Inventories	3.2	48.2	39.8
Trade and other receivables	3.3	486.2	405.9
Cash and cash equivalents	3.4	20.6	23.4
		555.0	469.1
Total assets		562.1	476.1
Current liabilities			
Trade and other payables	3.5	(495.4)	(411.6)
		(495.4)	(411.6)
Net current assets		59.6	57.5
Net assets		66.7	64.5
Equity			
Share capital	4.2	-	-
Share premium	4.2	360.3	360.3
Other reserves	4.2	9.2	9.2
Retained earnings		(302.8)	(305.0)
Total equity		66.7	64.5

The financial statements on pages 8 to 19 were authorised for issue by the Board of Directors and signed on its behalf by:



Duncan Tatton-Brown

Director

Ocado Retail Limited

Company Registration Number 03875000 (England and Wales)

Date

26 April 2019

Statement of Changes in Equity
for the 52 weeks ended 3 December 2018

	Share capital £m	Share premium £m	Other reserves £m	(Accumulated losses)/retained earnings £m	Total equity £m
Balance at 27 November 2016	-	360.3	9.2	(322.6)	46.9
Profit for the year and total comprehensive income	-	-	-	17.6	17.6
Balance at 3 December 2017	-	360.3	9.2	(305.0)	64.5
Profit for the year and total comprehensive income	-	-	-	2.2	3.2
Balance at 2 December 2018	-	360.3	9.2	(302.8)	67.7

Notes to the financial statements

Section 1- Basis of preparation

General information

Ocado Retail Limited (hereafter "the Company") is a private company limited by shares, and incorporated and domiciled in the United Kingdom. The address of its registered office is Buildings One & Two, Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9UL. The financial period represents the 52 weeks ended 2 December 2018. The prior financial period represents the 53 weeks ended 3 December 2017.

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 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 its ultimate parent, Ocado Group plc. The consolidated financial statements are prepared under International Financial Reporting Standards (IFRSs) and International Financial Reporting Standards Interpretation Committee (IFRIC) interpretations as endorsed by the European Union ("IFRS-EU"). The disclosure exemptions adopted, where applicable, are in relation to share-based payment arrangements, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, 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 as detailed in note 5.6.

New standards, amendments and interpretations issued that are not yet effective but have been early adopted and are not material to the Company:

IFRS 15 "Revenue from Contracts with Customers" provides guidance 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 replaces IAS 18 "Revenue" and is effective for annual periods beginning on or after 1 January 2018 unless adopted early. The Company has early adopted IFRS 15 in the current period and has concluded that it does not have a significant impact on the Company's financial statements:

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 year beginning 4 December 2017 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:

Various	Amendments to various IFRSs and IASs including those arising from the IASB's annual improvements project	1 January 2017
IAS 7	Statement of cash flows (amendments)	1 January 2017
IAS 12	Income taxes (amendments)	1 January 2017

Accounting policies

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

Foreign currency translation

Functional and presentation currency

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

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation at 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.

Notes to the financial statements (continued)

Section 1 – Basis of preparation (continued)

Critical estimates, judgements and assumptions

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

Key estimation uncertainties

Cost of sales

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

Recognition of deferred tax assets

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

Significant judgements

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

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 Ocado Group'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 the going concern basis.

Section 2 – Results for the year

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 Ocado 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. Ocado 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.

Notes to the financial statements (continued)

Section 2 – Results for the year (continued)

2.1 Profit before taxation (continued)

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

Cost of sales

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

Commercial income

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

Promotional allowances

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

Volume-related rebates

At the period-end the Company is required to estimate supplier income due from annual agreements for volume rebates, which span across the 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 Company'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. 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.

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.

Notes to the financial statements (continued)

Section 2 – Results for the year (continued)

2.3 Gross sales

	52 weeks ended 2 December 2018	53 weeks ended 3 December 2017
	£m	£m
Revenue	1,428.2	1,303.5
VAT	89.8	82.6
Marketing vouchers	23.6	20.5
Gross sales	1,541.6	1,406.6

2.4 Operating profit

	52 weeks ended 2 December 2018	53 weeks ended 3 December 2017
	£m	£m
Operating profit is stated after charging/(crediting) the following:		
Cost of inventories recognised as an expense	997.9	908.6
Impairment of receivables	(1.0)	(0.2)
Net foreign exchange (gains) / losses	(0.2)	0.2

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

	52 weeks ended 2 December 2018	53 weeks ended 3 December 2017
	£'000	£'000
Audit services		
- Audit of the Company's financial statements	99.7	89.0
	99.7	89.0

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 Taxation

Accounting policies

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

Current taxation

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

Deferred taxation

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

Notes to the financial statements (continued)

Section 2 – Results for the year (continued)

2.6 Taxation (continued)

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

Taxation – Income statement

	52 weeks ended 2 December 2018 £m	53 weeks ended 3 December 2017 £m
Recognised in the income statement		
Current tax:		
Adjustments in respect of prior periods	0.4	-
Total current tax	0.4	-
Deferred tax:		
Changes in recoverable amounts of deferred tax assets	(0.1)	0.8
Origination and reversal of temporary differences	-	(0.8)
Total deferred tax	(0.1)	-
Income tax credit	0.3	-

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

	52 weeks ended 2 December 2018 £m	53 weeks ended 3 December 2017 £m
Profit before tax	2.5	17.6
Effective tax charge at the UK tax rate of 19% (2017: 19.33%)	0.5	3.4
Effect of:		
(Non-taxable) / non-deductible items	(0.8)	0.6
Utilisation of brought forward losses	-	(0.8)
Temporary differences on which no deferred tax is recognised	(0.1)	0.5
Group relief surrendered / (claimed)	0.3	(3.7)
Adjustments in respect of prior periods	0.4	-
Income tax credit	0.3	-

Taxation – Balance sheet

Movement in the deferred tax asset is as follows:

	Tax losses £m
As at 27 November 2016	7.0
Tax losses recognised through the income statement	-
As at 3 December 2017	7.0
Effect of change in UK corporation tax rate	-
Tax losses recognised through the income statement	0.1
As at 2 December 2018	7.1

Notes to the financial statements (continued)

Section 2 – Results for the year (continued)

2.6 Taxation (continued)

The Finance Act 2019 included legislation to reduce the main rate of UK corporation tax from 19% to 18% from 1 April 2020. Deferred tax has been provided at the rate at which the deferred tax asset is expected to be utilised.

As at 2 December 2018 the Company had approximately £47.6 million of unutilised tax losses (2017: approximately £49.9 million) available for offset against future profits. A deferred tax asset of £7.1 million (2017: £7.0 million) has been recognised in respect of £41.7 million (2017: £41.2 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 £5.9 million (2017: £8.7 million) losses on the basis that their future economic benefit is uncertain given the unpredictability of future profit streams. All tax losses, both recognised and unrecognised, can be carried forward indefinitely.

No deferred tax asset is recognised on temporary differences of £nil (2017: £6.4 million) relating to pension contributions.

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

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

Trade and other receivables

Trade receivables are non-interest bearing and are on commercial terms. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Other receivables are non-interest bearing and are recognised initially at fair value, and subsequently at amortised cost, reduced by appropriate allowances for estimated irrecoverable amounts.

Provision for impairment of trade receivables

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

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

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

Cash and cash equivalents

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

Financial liabilities and equity instrument

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

Notes to the financial statements (continued)

Section 3 — Operating assets and liabilities (continued)

3.1 Working capital (continued)

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 Inventories

	2 December 2018	3 December 2017
	£m	£m
Goods for resale	48.2	39.8

Write-down of inventories recognised as a charge amounted to £0.6 million (2017: £0.3 million) in the income statement. No security has been granted over inventories.

3.3 Trade and other receivables

	2 December 2018	3 December 2017
	£m	£m
Trade receivables	41.8	22.6
Less: provision for impairment of trade receivables	(1.4)	(2.6)
Net trade receivables	40.4	20.0
Other receivables	1.2	5.0
Prepayments	2.3	1.3
Amounts due from group undertakings	417.8	362.1
Accrued income	24.5	17.5
	486.2	405.9

Included in trade receivables is £29.9 million (2017: £12.2 million) due from suppliers in relation to commercial and media income. As at 6 January 2019 £26.7 million has been received. Included in accrued income is £8.4 million (2017: £8.6 million) to be invoiced to suppliers in relation to supplier funded promotional activity and £10.8 million (2017: £8.0 million) to be invoiced to suppliers in relation to volume-related rebate amounts. As at 6 January 2019 £8.1 million of accrued income has been invoiced.

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

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

3.4 Cash and cash equivalents

	2 December 2018	3 December 2017
	£m	£m
Cash at bank and in hand	20.6	23.4

3.5 Trade and other payables

	2 December 2018	3 December 2017
	£m	£m
Trade payables	97.9	79.7
Accruals	41.9	36.5
Amounts due to group undertakings	352.0	291.4
Deferred income	3.6	4.0
	495.4	411.6

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

	52 weeks ended 2 December 2018 £m	53 weeks ended 3 December 2017 £m
Interest on amounts due from group undertakings	-	1.7
Finance income	-	1.7
Interest on amounts due to group undertakings	(4.4)	(1.3)
Other finance costs	-	-
Finance costs	(4.4)	(1.3)
Net finance (costs) / income	(4.4)	0.4

4.2 Share capital and reserves

Accounting policy

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

Share capital and reserves

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

	Ordinary shares Number	Share Capital £m	Share premium £m
At 3 December 2017 and 2 December 2018	100	-	360.3

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

	Capital contributions reserve £m	Fair value reserve £m	Total other reserves £m
At 27 November 2016, 3 December 2017 and 2 December 2018	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.

4.3 Share-based payments

For more information on the Ocado Group's share schemes, see notes 2.7 and 4.10 to the consolidated financial statements, which can be found at www.ocadogroup.com.

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 (2017: £nil).

Operating lease commitments

The Company has no operating lease commitments (2017: none).

Notes to the financial statements (continued)

Section 5 – Other notes (continued)

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 Group plc.

5.5 Post balance sheet events

On 5 February 2019 the Andover CFC, which was providing approximately 10% of the Company's capacity, was seriously damaged by fire. As a result of this incident there will be a constraint on the Company's ability to meet growing demand and there will be a reduction in sales growth until capacity can be increased elsewhere. Insurance claims are in progress and are expected to cover costs of stock, refurbishment, replacement and loss of business.

On 27 February 2019 it was announced that a 50% shareholding of the Company would be sold to Marks and Spencer Group Plc ("M&S") for up to £750 million. On the same date it was also announced that, from September 2020 at the latest, the Company will benefit from access to M&S's brand, products and customer database following the termination of the current Waitrose sourcing agreement and migration of the Company's sourcing to M&S.

5.6 Ultimate parent undertaking and controlling party

The Company's ultimate parent undertaking and ultimate controlling party is Ocado Group plc, a company incorporated in the United Kingdom. Ocado Group plc is the parent undertaking of the smallest and largest group, which includes the Company and for which group accounts are prepared. The consolidated financial statements of Ocado Group plc can be obtained from its registered office at Buildings One & Two, Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9UL, or alternatively from its corporate website www.ocadogroup.com. The Company's immediate controlling party is Ocado Holdings Limited.