



Changing the way the world shops

Ocado Group Plc Annual Report and Accounts
For the 52 weeks ended 1 December 2019



Introduction

Our Purpose and Mission

Changing the way the world shops

We are transforming shopping, using our unique knowledge and inspired culture to make it as easy and efficient as possible. Our innovative technologies and shared expertise deliver a continuous advantage to our partners, so that they, in turn, can deliver the best possible service to their customers.

Our Values

Our values guide ways of working across our diverse network of business areas, building an engaged and mission-driven culture that, in turn, is best placed to deliver value for all our stakeholders.



→ Read more on page 63

“We have an unprecedented platform for growth.”

Tim Steiner
Chief Executive Officer



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NAVIGATING THIS REPORT

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- Read more information online www.ocadogroup.com





Our Journey

2019 has seen a shift in the centre of gravity at Ocado Group.

We have pivoted from being a pure play online grocer in the UK with a separate Solutions business to being a technology-led global software and robotics platform business providing a unique end-to-end solution for online grocery.

01

Building on Our Heritage

Ocado Retail powered by technology

→ Read more on page 04

02

Building on Today

Ocado Solutions powering retailers

→ Read more on page 06

03

Building for Tomorrow

Technology-focused innovation house

→ Read more on page 08





**“We have never
been in a better
position to
create value.”**

Tim Steiner
Chief Executive Officer



01
02
03

Building on Our Heritage

Ocado Retail powered by technology

We continue to invest in Ocado.com, currently the world's largest dedicated online grocery retailer, with our joint venture partner M&S.

Ocado.com is now one of nine global partners, all amongst the most innovative and forward-looking grocers in the world, whose online businesses are, or will be, enabled by the Ocado Smart Platform (OSP).



99%
order accuracy

58,000
products in the range



OUR CUSTOMERS

Retail customers





01+02
03

Building on Today

Ocado Solutions powering leading retailers worldwide

The global network of market-leading retailers partnered with Ocado Solutions is growing, and we are growing with it.

As we reach major milestones with our partners and bring more retailers to the Ocado Smart Platform, we are investing in our people and technology to ensure our partners are able to offer great online experiences to their customers, with the best possible economics.

Our solutions are built to scale, both in terms of physical capacity as grocery online penetration grows worldwide and in terms of software capabilities as the market develops.



OUR PARTNERS

Morrisons • Bon Preu • Groupe Casino • Sobeys • ICA Group • Kroger • Ocado Retail • Coles • Aeon

50+

Customer Fulfilment
Centres (CFCs)
committed⁽¹⁾

9

Ocado Solutions
Partners





Investment
in international CFCs
in 2019

£71m



Investment
in developing our OSP
solutions in 2019

£124m



(1) Sizes vary. The number reflects sales capacity equivalent to this many standard-sized CFCs



01 02+ 03

Building for Tomorrow

Pioneering the future through disruptive innovation

We have a solid record of addressing many complex problems through cutting-edge innovation.

Throughout our 19-year journey, we have built a rich technology estate and gained innovation assets – such as competencies, know-how and intellectual property – that are a source of competitive advantage.

These innovation assets, specifically built for grocery, will enable current and future partners to future-proof their platform business. Our unique culture of serial disruption is a fundamental enabler of this future-proofing. Looking ahead, the network effect will be expanded, helping our partners to grow even faster.

B2B+

Partners in multiple sectors

92

patents granted in 2019
(vs 52 for 2018)



4

strategic synergistic investments made in 2019



Contributed to

4

EMEA-wide innovation
research partnerships





+

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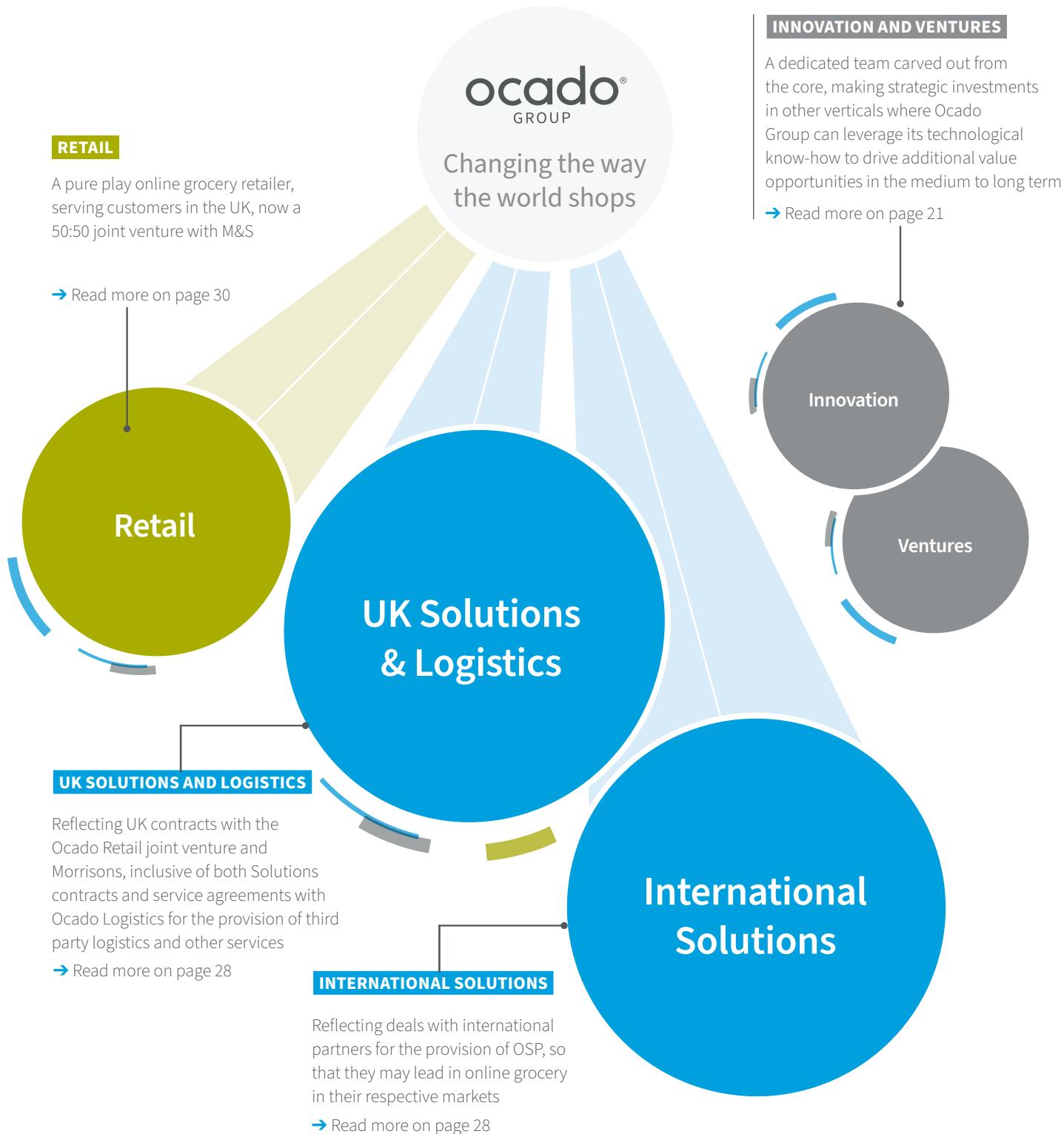
Group at a Glance

+

OCADO TODAY

Technology Business Powering Retailers

A technology-led, global, software and robotics platform business, with a strong retail heritage.



Why Invest in Ocado?

Online is the fastest growing channel in most markets. We built our business specifically for this change in shopping behaviour – to benefit from, and to lead, the online revolution for our partners.

In our home market of the UK, we are seeing a fundamental shift in grocery shopping behaviours, as customers looking for improved service, convenience and value shift to online.

The continuing growth of online shopping is made possible by improved technology, while the customer experience has been enhanced by faster broadband and new generation mobile devices, both trends that can be seen globally.



REASONS TO INVEST

01

Grocery online is the fastest growing channel in most markets, but market share is still much lower than for general merchandise categories

→ Read more on page 23

02

As we have built the world's leading pure play online grocer, we have developed unique, proprietary, technology for the fulfilment of online grocery

→ Read more on page 24 and 25

03

We package and license our leading technology to other retail partners globally as OSP

→ Read more on page 25

04

We retain a 50% share in the Ocado Retail joint venture, the fastest growing grocer in the UK market, an important test bed, and a valued partner

→ Read more on page 30

05

OSP offers a superior customer experience and unparalleled efficiencies, allowing our partners to grow sales and win market share, profitably and sustainably

→ Read more on page 25

06

Our model is based on a virtuous cycle of growth, investment and innovation, with network effects magnified as our customer base scales

→ Read more on page 26 and 27

07

We are innovating so that our partners can lead in online grocery missions beyond the full basket shop

→ Read more on page 34

08

Our technological expertise is applicable beyond grocery

→ Read more on page 21



BRINGING THE BEST TOGETHER

Ocado Retail, a joint venture with M&S



The 50:50 joint venture combines Ocado Retail's leading UK online grocery service with M&S's food innovation expertise and extensive customer base, to create an unparalleled proposition for the UK consumer. Powered by Ocado Group's OSP and logistics services, the joint venture is set to continue to transform online grocery in the UK.

"A transformative moment in the UK retail sector with the combination of two iconic and much-loved retail brands set to provide an unrivalled online grocery offer."

Tim Steiner

Chief Executive Officer

Ocado Retail

Contributes existing UK online grocery retail business, ocado.com



M&S

Provides all M&S's fresh, own-brand products once the sourcing agreement begins (September 2020)



Joint Venture (Formed in August 2019)

- Manages pricing, category mix, branded and own-label sourcing and marketing
- Invests in buildings for new CFCs and home delivery vans
- Service agreements with Ocado and M&S



Ocado Solutions

New solutions contract inline with other global partners



Financial proceeds

- Expected £750m total consideration for M&S's 50% share
- Ocado will receive 50% of the joint venture's profits

Progress in 2019

Strategic Highlights

- We formed a 50:50 joint venture with M&S to transform online grocery retail in the UK. As a result of this deal, Ocado Retail is in an even better place to grow strongly and Ocado Group has increased resources to both grow the Solutions business and innovate for partners, including the joint venture.
- We signed our sixth and seventh international agreements to develop the OSP in Australia and Japan, with leading retailers Coles and Aeon. OSP will now power the online grocery business of nine of the world's most innovative and forward-looking retailers: Ocado Retail, Morrisons, Bon Preu, Groupe Casino, Sobeys, ICA, Kroger, Coles and Aeon.
- We expanded our partnerships in Canada and the UK, with both Sobeys and Ocado Retail, as the new joint venture, announcing further CFC commitments.
- We continued to enhance the OSP, with the successful trial of Ocado Zoom for immediacy and the announcement of the first mini-sized CFC, both for Ocado Retail. As part of a bespoke ecosystem, these new propositions will enable our partners to serve new missions and geographies in their respective markets.
- We continued to invest for the medium and long term. We implemented a robotic picking solution to start to assist on live customer orders at our Erith CFC and made our first strategic investments leveraging our technology expertise to support new opportunities for customers and partners in other verticals.

→ Read more on pages 34 to 36

Operational Highlights

- Despite the impact of the Andover CFC fire on capacity, we maintained double digit order growth in Ocado Retail, demonstrating the resilience of the business. With growth, the business continues to achieve consistently high levels of customer service, remaining a market leader in punctuality of deliveries and order accuracy. As a result, Ocado Retail has grown sales significantly ahead of the UK market and taken market share. Active customer numbers have grown by 10.3% to 795,000 and orders per week now average over 325,000.
- We have facilitated the growth of the UK business by adding further capacity to our network, using learnings from our third CFC in Andover to ramp our fourth CFC, in Erith, faster than originally envisioned. When at full capacity, Erith will be the largest automated warehouse for grocery anywhere in the world.
- We continued to progress in delivering OSP to our partners. In Catalonia, Bon Preu began making online deliveries in the first half of 2019, with Morrisons continuing to roll out OSP store-pick software in stores throughout the year. The delivery of international CFCs is on track, starting from the first half of 2020 in France and Canada, with further sites committed in each of the US, Canada, Sweden, Australia and Japan.

→ Read more on page 30 and pages 34 to 35



Ocado Group: a review of top line expectations for our four operating segments

Looking at recent performance and expectations for top line trends across operating segments

YESTERDAY

TODAY

TOMORROW

Revenue Group Ⓛ (£m)

Revenues from 100% owned Retail business and Solutions revenues from operational Morrisons partnership



Revenues from fully consolidated Ocado Retail joint venture and fees for solutions and logistics services in the UK. Under IFRS15 upfront fees received from international partners are deferred until go-live

£1,757m

Future inflection point, with growing proportion of revenues recognised from International Solutions partnerships as more CFCs go live and ramp up in partner markets

Revenue Ocado Retail Ⓛ (£m)

Revenues from 100% owned Retail business



Revenues from fully consolidated Ocado Retail joint venture in the UK, in partnership with M&S

Full consolidation of Ocado Retail joint venture revenues will continue for at least five years. Thereafter, it is anticipated that control of the joint venture will pass to M&S and, when it does pass, it will consolidate the joint venture

Revenue Solutions Logistics – UK Ⓛ (£m)

Fees received from UK partners, the Ocado Retail joint venture and Morrisons, for the execution of Solutions and logistics contracts

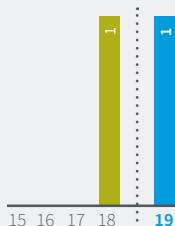


Fees received from UK partners, the Ocado Retail joint venture and Morrisons, for the execution of Solutions and logistics contracts

Fees received from UK partners, the Ocado Retail joint venture and Morrisons, will grow as these partners add capacity and scale their operational networks as they grow their online businesses

Revenue Solutions – International Ⓛ (£m)

Fees invoiced from international partners that can be recognised as revenues under IFRS 15



Fees invoiced from international partners that can be recognised as revenues under IFRS 15

£81.4m

Fees invoiced to International Solutions partners

Future inflection point, with revenue building as CFCs go live and ramp in partner markets globally

④ See Alternative Performance Measures on pages 227 and 228.



with **Tim Steiner**
Chief Executive Officer

“We have never had as many opportunities to grow as we do today. As we look to successfully scale our business and deliver outstanding execution to our partners, our challenge will be to select and prioritise the most attractive of these opportunities.”

Tim Steiner
Chief Executive Officer

Q What are the main benefits of Ocado's joint venture with M&S?

A The joint venture with M&S puts each area of the business in a better position to grow. As a leading online grocer in the UK, Ocado Retail will now also benefit from M&S's well-known expertise in food innovation and quality and their sizeable customer base that hasn't been able to shop M&S online until now. The business will still be powered by OSP and the increased resources from the deal will enable our Solutions business to grow and innovate faster, for Ocado Retail and all our partners around the world.

Q What is the overall impact of the fire at Andover?

A The fire at Andover saw us lose around 10% of our capacity, impacting on Ocado Retail's ability to grow in the near term. We had to write off Andover CFC entirely, with the associated impact on profits. Importantly, we expect business disruption and the asset write-off to be covered by insurance. We have also been able to recover to levels of growth approaching those achieved before the fire at a much faster rate than most people expected. We achieved this by driving incremental volumes through our mature CFCs and through a deal with Morrisons in which they have agreed to give up their right to capacity at Erith until February 2021. It was a terrible event, but one through which we have taken away important practical learnings regarding site build and collaboration with local services, as well as a renewed appreciation for the resilience of the model and the people working to find solutions in our business.

Scaling the business to execute for our partners is a challenge of velocity

Q How can you ensure you are capable of building over thirty CFCs in the next three to four years?

A We don't underestimate the challenges in scaling to execute for our partners over the next several years. It is a challenge of velocity; we have successfully built and scaled CFC operations in the UK, but now we need to do this many times over, globally. We've reorganised the entire business around mission-focused delivery to do just this, to ensure effective collaboration and minimise any bottlenecks. We've invested heavily in building out our technology talent in the areas we know, to ensure we have the capacity to deliver on our promises. And we're building out new capabilities in client services so that we can serve our clients 24/7, in their own languages, both on and off the ground. We do benefit from longer lead times on these projects, and we're continuously building our experience. Of course, every learning we get from one project we bring into the next.

Q How are investments outside of grocery being considered?

A Over the last two decades we have developed an extensive technological real-estate. Now we have the chance to leverage that expertise to support new opportunities to create value in the medium to long term. These investments can be in areas tangential to our core mission in grocery, where our know-how can help accelerate innovation and growth, to seed new opportunities for partners in the future. They can be opportunities outside of grocery where our technology can be a disruptive force in another vertical. We haven't set aside a specific pool of capital dedicated to these investments. They will be on a case by case basis, and where we see a real opportunity for significant future returns.





Chairman's Statement

"We have always been a company that prides itself on being agile and responsive and this year we have demonstrated this through a number of innovative partnerships and transactions."

Lord Rose
Chairman



It has been a period of innovation for the Ocado Group and we are proud to report on another momentous year.

In the following pages of this Strategic Report, we describe to you how the centre of gravity of Ocado is shifting.

We have always been a Company that prides itself on being agile and responsive and this year we have demonstrated this through a number of innovative partnerships and transactions. We have pivoted from being a pure play online grocer in the UK with a separate Solutions business to being a global software and robotics platform business providing a unique end-to-end solution for online grocery.

At the same time, we recognise the impact that we have on communities and the environment.

While it has been a year of innovation and rapid progress, we are focused on our plans for the future and on keeping Ocado at the forefront of technology.

The world is changing fast, driven by different shopping habits and ever more advanced technology for the consumer. Grocery is the largest of all retail segments and is continuing to move online. We are well positioned to take advantage of these long-term structural trends for the benefit of all our stakeholders. We want to continue to offer our customers better choice, better quality and better standards.

The business is changing and the decision to sell 50% of the Ocado Retail business to M&S gives Ocado.com the tools it needs to grow faster, while also providing Ocado Group with the resources it needs to improve the platform and to focus on execution for our Solutions partners. I am delighted to welcome Melanie Smith, the new CEO of Ocado Retail; she talks on page 30 about the future of Ocado Retail and further unlocking the potential of this business.

The year was not without its challenges and in February we reported on a devastating fire at CFC3 in Andover. Thankfully, this fire did not lead to any injuries but it did affect the livelihoods of many and we are grateful for the work of the first-responders as well as our colleagues who have worked tirelessly to mitigate the impact of the fire on customers and the local community. Despite the loss of one of our four CFCs, Ocado Retail sales increased significantly again in 2019, which is testimony to the resilience of the business and the people who work in it. Following this fire, Ocado has been seeking additional capacity within its existing network of CFCs to maintain the quality of the customer experience and to allow the business to continue to grow, while at the same time investigating the longer term steps to replace the lost capacity from CFC3.



As a global business we are changing and evolving as the markets that we operate in change; however, we do so with a strong awareness of the risks and demands that are placed on us. For our Solutions business we are acutely aware of the significant costs of investments into our technology and engineering capabilities and equipment. There are also execution and innovation risks to our Solutions business which is why we have teams in place to guide the implementation plans for the new CFCs for our Solutions partners. For our Retail business there are challenges particularly in light of the current UK grocery market and the uncertainties surrounding Brexit. These principal and emerging risks are discussed in great detail on pages 48 to 52.

The Board and I recognise that in order to provide the best service we must identify our stakeholders and ensure that we are in tune with their needs and continue to engage with them. We report further on this on pages 58 to 59. We believe that our long-term strategy is aligned with our Company culture and recognise companies have to collaborate to put the best teams together to achieve their aims. We continue to invest in recruiting and retaining talented people throughout the Group, with an increasing focus on technology and engineering to achieve our overall aims and to ensure that we continue to create long-term shareholder value for Ocado.

I would like to thank all my colleagues for their hard work and dedication over the last twelve months.

We continue to have corporate responsibility as a key focus with the environment, community and governance issues reported on throughout this Annual Report. We are always looking to make improvements to our operating model and our working practices to ensure that we, and our partners, can grow in the most sustainable way. This year we increased our usage of electricity from zero carbon sources and I am pleased to report that there has been a reduction in our carbon emissions in both absolute terms and on a per order basis. In terms of waste, we believe Ocado has the lowest food wastage in the industry.

We look forward to the year ahead and to building on our heritage. We remain committed to our mission to “change the way the world shops” and our strategy of getting our partners to the leading position in their countries by being the most advanced technology-led grocery platform business.



KEY ACTIVITY IN THE YEAR

- November 2019: Ocado Group announced CFC6, its first mini CFC, in Bristol.
- November 2019: Ocado Solutions – Agreement with Aeon to partner to develop Aeon’s online grocery business in Japan using the OSP.
- August 2019: Ocado Retail joint venture agreement with M&S completed.
- July 2019: Ocado Group announced its fifth CFC in Purfleet.
- June 2019: Ocado Ventures – Vertical farming agreement to create a strategic three-way joint venture with 80 Acres Farms Inc and Priva Holding BV each a leading participant in the vertical farming industry.
- June 2019: Ocado Ventures acquired a majority stake in Jones Food Company, Europe’s largest operating vertical farm.
- May 2019: Ocado Solutions announced that Sobeys Inc are to build a second Customer Fulfilment Centre in Pointe-Claire, Montreal.
- March 2019: Ocado Group announced an agreement with Coles Group Ltd (“Coles”) to partner with Ocado Solutions to develop Coles Online’s grocery business in Australia using OSP.
- March 2019: Ocado Zoom goes live, Ocado’s first immediacy service offering delivery within 60 minutes of an order being placed.
- February 2019: Ocado Group announced that it had entered into arrangements with M&S to establish a new 50:50 joint venture comprising Ocado Retail, supported by a new partnership for solutions services underpinned by the OSP and the provision of branding and sourcing from M&S.

Lord Rose

Chairman

11 February 2020





The Marketplace

The Ecosystem We Operate In



THE GLOBAL GROCERY MARKET

The global market we operate in represents around

50%

of all retail sales

The global food distribution market is worth

£5.6 trillion

Roughly

30%

of all supply chains costs are spent on warehousing and last mile delivery

By 2024, the global grocery retail market will expand by approximately

£2.5 trillion

due to growth in both population and spending power⁽¹⁾

Through 2024, global online grocery sales will grow at a CAGR of

15%

compared to 6% for the overall grocery market⁽²⁾

Trends Affecting the Grocery Industry



Societal Shifts

Ageing population, urbanisation, time poverty, health and well-being

3.1%

annual growth rate of the convenience market⁽³⁾

£48.2bn

projected market value of the convenience channel by 2024⁽³⁾

How Are Markets Responding?

As societal shifts drive new definitions of convenience for consumers, retailers have to adapt to meet heightened expectations of service. This requires a model with the flexibility to serve customers exactly what they want, when they want it, for a reasonable price, across an evolving spectrum of missions from the big basket shop to immediacy.

Time Poverty

With more dual income households and increased awareness about the importance of good nutrition, consumers are looking for affordable ways to reduce time spent on grocery shopping without compromising on quality or choice.

What This Means for Ocado Group Today

By delivering market leading levels of both punctuality and order accuracy, with unparalleled range and freshness, OSP enables partners to take the time and frustration out of grocery shopping for their customers. This leading customer offer will drive improved loyalty, enabling our partners to take increased share online in their markets, in turn driving increased volumes through the OSP.

What This Means for Ocado Group Tomorrow

With the successful trial of Ocado Zoom in London, Ocado Group is now bringing that award-winning service to immediacy shopping missions, enabling retailers to serve their customers across the full range of grocery missions in an evolving market.

→ Read more on page 34



(1) Source: The Institute of Grocery Distribution (IGD) (£2.12 trillion at current exchange rate).

(2) Source: <https://www.ascentialeedge.com>

(3) Source: The Institute of Grocery Distribution (IGD) Research, 2019



Trends Affecting the Grocery Industry



Transformative Technology

Artificial Intelligence, Robotics, Big Data, Digital Twins and the Internet of Things

50+

items can be bought in three minutes thanks to our instant shop algorithm⁽⁴⁾

620,000

simulations were run last year, covering over 2 million hours of warehouse run time⁽⁵⁾

How Are Markets Responding?

We live in a world of increasingly high consumer expectations. Trends like immediacy and personalisation are having a major impact on society. Today, consumers want to shop in tailored online stores, and to have the widest, freshest range of produce delivered to their door in short time frames. There is no room for error.

Innovation

These market trends have been key drivers behind advancements in Artificial Intelligence (AI), robotics and automation. There are interesting opportunities to explore in areas like dark kitchens, vertical farms and even autonomous vehicles.

What This Means for Ocado Group Today

Artificial Intelligence

Our capabilities in AI enable our customers to make their orders exceptionally quickly in personalised virtual stores, making the online shopping experience more enjoyable than ever before. In the last mile, our AI optimises van delivery routes in real-time so that the routes we drive tomorrow will be even more efficient than the ones we drive today.

Automation and Robotics

We have developed some of the most advanced robotics and automation capabilities available. We believe our unique bots and new suction cup technology will allow us to automate the picking and packing of customer orders, to deliver a wide, fresh range of food quickly, predictably, and with the lowest rate of food waste in the industry. We are constantly optimising our offerings by using our data to produce “Digital Twins” of our physical and digital assets, which allow us to derisk their testing, evaluation and optimisation.

→ Read more on page 36

Applying Our Technology in Other Verticals



LIKELY

Similar Technology

- General Merchandise
- Other Logistics Verticals



POSSIBLE

Modified Technology

- Parcel Sortation
- Freight and Baggage Handling
- Car Parking
- Vertical Farming



ASPIRATIONAL

Adapted Technology

- Port Operations
- Rail Yard Operations
- Configurable Buildings

What This Means for Ocado Group Tomorrow

Our capabilities in “Digital Twins” permit us to uncover new, highly optimised paradigms for our platforms that might otherwise have remained out of sight. Looking ahead, our investment in businesses like robotics start-up Karakuri and virtual farm companies Infinite Acres and Jones Foods opens the door to new innovations in highly synergistic areas.





The Marketplace

The Ecosystem We Operate In

Trends Affecting the Grocery Industry



Resource Resilience

Efficiency, future workforce and skill gaps

1,600

Ocado Technology
Employees, 2019

How Are Markets Responding?

Climate change, protecting the planet, health and wellbeing are all defining issues of our time. Waste, transport and packaging, within the marketplace we operate, are all areas where Ocado's technology and solutions can make a real difference to grocery and other industries we may serve going forwards.

Our centre of gravity has shifted from our heritage as the world's leading pure play online grocery retailer, to being a global technology solutions provider. Competitors within the grocery market are making moves towards tackling these key issues, but our approach and focus on technologies and solutions sets us apart and positions us to better deal with these important challenges.

With technology at the heart of many industry responses the importance of knowledge and attracting, inspiring and retaining the best talent is of high importance. Our competitors are also looking to attract talent but Ocado's brand, focus on innovation and global network will enable us to invest to develop skills and build workforces to support our hunger for ideas and technologies. We are now a technology-led global software and robotics platform business; a FTSE 50 company that's constantly growing.

Operating Sustainability

Working with wider industry to drive change gives advantages of scale. Collective action such as "Better Retail, Better World", a BRC initiative, works to make real, demonstrable achievements in some of the biggest global challenges facing us.

Efficiency is at the heart of our business model, proven by our low food waste figures and continued carbon intensity measure improvements.

What This Means for Ocado Group Today

Ocado today is at the heart of a club of retailers for whom we are innovating to "change the way the world shops".

Online is the fastest growing channel in most markets. We built our business specifically for this change in shopping behaviour – to benefit from, and to lead, the online revolution for our partners/clients.

We transform shopping to make it as easy and efficient as possible for consumers and our partners/clients. By designing and creating new technologies, for all our customers, we put efficiency at the heart of our business while delivering the best solutions to combat climate change and reduce the use/consumption of the world's resources.

These beliefs and strategies are also helping us grow our own workforce globally, increase our retail customers as well as our OSP clients and as a result our workforce requirements are changing. Technology driven solutions require the brightest minds and attracting the talent of tomorrow is critical to our delivery of our missions.

The grocery and technology marketplace is responding and the battle between companies to have the best people is on. Ocado's ability to attract and retain that talent is a priority. Some will struggle to fill the skill gaps that exist; at Ocado we are setting ourselves up as a global business and brand that will train and support learning, career development and opportunities to work at the cutting edge of technology.

What This Means for Ocado Group Tomorrow

The Ocado of tomorrow is a "technology house", drawing on the Ocado brand and investing in developing our talent to continue the drive for innovation, efficiency and customer service. We will continue to disrupt the market with investments in our core business technologies as well as other future areas of focus like vertical farming.





THE ONLINE GROCERY MARKET WORLDWIDE

The online channel is the fastest growing channel in most developed grocery markets worldwide. The digital world typically evolves faster than the physical world, and new generations of shoppers will be more likely to view online ordering as the norm.

By 2024 European online grocery sales will grow by

68%⁽¹⁾

By 2024 North American online grocery sales will grow by

101%⁽¹⁾

By 2024 Asia Pacific online grocery sales will grow by

108%⁽¹⁾

The Options for Grocery Retailers

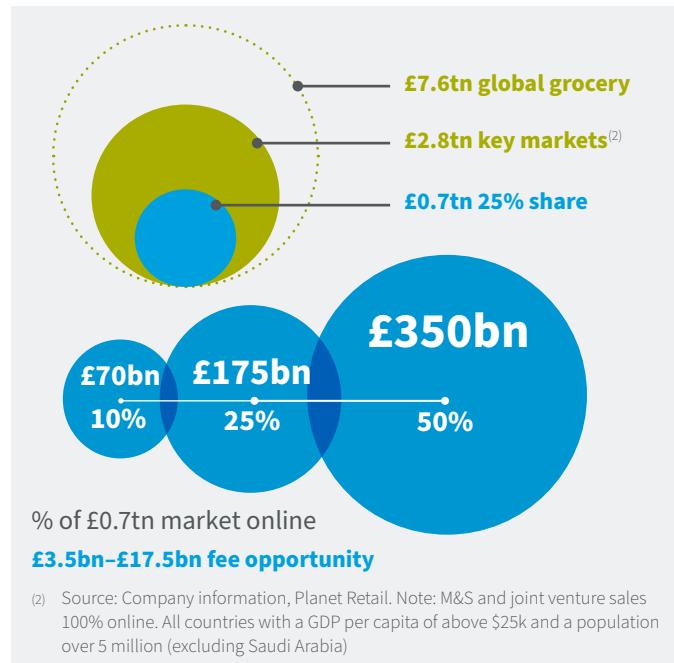
Aside from the choice of developing online capabilities in-house, retailers have three main options when considering how to grow and manage their online proposition:

- 1 **Store pick:** Fulfilment is done at a local level, in either a live store environment or using some automation.
- 2 **Outsourcing to third parties:** A customer orders from their chosen retailer, and their shopping is delivered through a third-party shopping service.
- 3 **Centralised fulfilment centre:** A customer orders from their chosen retailer who operates through partly or fully automated facilities of different sizes. Ocado Solutions provides the only complete, fully automated, package with all the proven mechanical handling equipment and software needed, whatever the optimal size for the customer need.

What This Means for Ocado Group Today

Ocado Group is well placed to capitalise on the accelerating shift to online channels, using both its considerable experience in grocery retail and technological expertise to change the way the world shops in partnership with leading grocery retailers on a global scale.

The addressable market for OSP presents a long runway for growth



What This Means for Ocado Group Tomorrow

As an increasing proportion of grocery shopping missions at OSP partners migrates to the online channel, Ocado Group benefits from more resources to invest for further innovation. This both attracts new partners and means that the Group and its partners can continue to lead the market for consumers in grocery online.

(1) Source: <https://www.ascentialedge.com>



Business Model

01 Building on Our Heritage

Our Assets

Our People

Our business is built by passionate people who can find solutions to problems, and go the extra mile to deliver a high quality service. Our technology and engineering development

teams are crucial to our ability to improve and advance our intellectual property rapidly, allowing us to maintain technological leadership.

→ Our culture and values connect, guide and inspire our people. Read more about our values in the People section on page 63

Intellectual Property

Nineteen years of learning, research and development have enabled us to build the world's most advanced end-to-end e-commerce, fulfilment and logistics platform for online grocery. Our cutting-edge IP, which spans our entire technology estate, has played a crucial role in making this solution the most advanced

available. Our IP is a fundamental source of our competitive advantage and we take rigorous measures to protect it. Our patent attorneys and IP lawyers also work closely with technical teams on the ground to make sure we continue to find and protect the important inventions which add value to the company, now and in the future.

→ Read more on page 36

Technology

We build in-house almost all of the technology that powers our world-class systems and solutions, which span the intersection of physical and digital worlds. Due to the sheer complexity involved in picking, packing and delivering a vast

range of online groceries, we have developed some of the world's most advanced capabilities in AI, robotics, data science, simulation, digital twins, vision systems and many others.

Ocado Retail

Throughout our history, our entire attention has been on **developing the best possible online grocery operation**.

This single-minded focus has enabled us to develop market leading logistics and physical infrastructure solutions, driven by proprietary technology and innovation. We have **added and grown numerous capabilities** within our business to develop and refine our end-to-end platform solution.

OSP comprises technology and infrastructure solutions that have been developed with the benefit and experience of operating them as a retailer. Unlike third party providers of products, services and software, we are a retailer, and our systems, processes and hardware have evolved over many iterations in a **live retail environment**.



02

Building on Today

Changing the Way our
Partners' Customers Shop

Customisable
Service Offering

Ocado Smart Platform

End-to-end, scalable solutions

The number of market leading retailers partnered with Ocado Solutions continues to expand, with nine grocery retailers around the world now partnered with us. Building on the success of Ocado Retail, OSP is designed to enable the best possible economics for our partners, online businesses, with great online grocery experiences for their customers.



Retailer's online customers visit retailer's website

1 Webshop, mobile apps, voice ordering

OSP allows our partners to offer multiple shopping channels to their customers. They offer **personalised shopping experiences**, as well as seamless search and order placement. These are underpinned by advanced data science, including proprietary search and recommendation algorithms. They also provide suppliers with unique targeting opportunities.

Future-proof

OSP can be configured to the unique needs of individual partners and is built to help them thrive in a rapidly developing market for grocery online.

Our modular physical infrastructure allows our partners to scale fulfilment capacity as their online business grows, while our end-to-end software and technology systems are regularly updated to absorb new innovations in the development pipeline for Ocado Technology.

The platform harnesses Ocado's success in grocery e-commerce over two decades. It is driven by our capacity to innovate ahead of the market and our experience of building online retail market share in grocery.



2 Fulfilment Capabilities

Our automated fulfilment solution includes our state-of-the-art grocery automation system. **Ocado's fulfilment ecosystem includes CFCs** across a range of sizes, with each utilising space more efficiently than traditional store-based fulfilment methods. They enable a **superior customer value proposition** by shortening customer order lead times and improving picking quality and accuracy. It provides better productivity even at lower volumes and allows for continuous development.

Our proprietary **store pick software** also provides a flexible, asset-light way to start or **expand e-commerce reach**. It can be deployed in combination with automated fulfilment to cover a wider geography and allows for continuous development.



3 Optimised Last Mile

OSP-powered last-mile routing technology optimises delivery efficiency, **customer service excellence** and punctuality. Once picked, customer orders can be delivered to customer kitchen tables, or made available at pickup points or handed to couriers for outsourced delivery.



03

Building on Tomorrow

Continuously Improving Our Proposition

Enhancing Our Platform

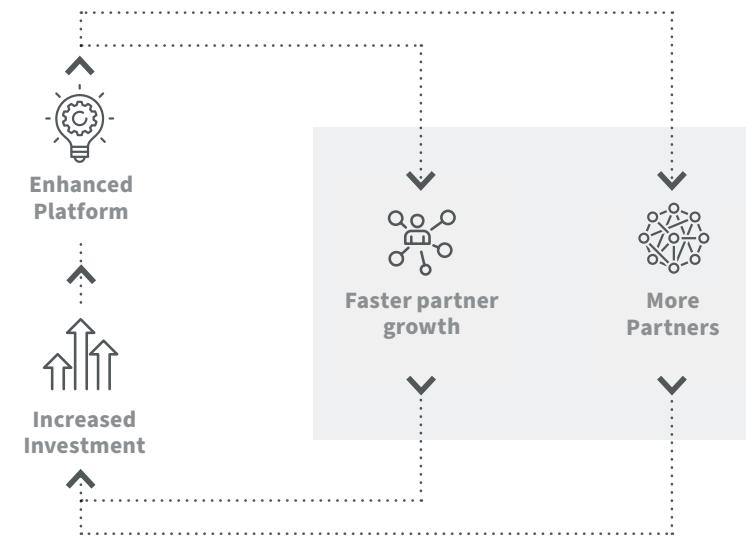
Our Virtuous Cycle

The nature of OSP's worldwide partnership club enables learnings from each of our partners' markets to be absorbed into the platform, with new capabilities becoming available to all.

These insights, coupled with the expertise and output of Ocado Technology, mean that both our partners and their customers will benefit from a globally optimised

experience, channelled through innovation experts with a dedicated focus on grocery e-commerce.

The model below illustrates how we take our capital inputs and, through increased investment, are able to enhance our platform. An enhanced platform not only allows faster growth for our partners but is attractive for prospective partners.



ENHANCED PLATFORM

We are continuously enhancing our service offering to maintain and develop OSP. Innovation is business as usual with a lot of cutting-edge development being carried out within our core technology teams working on OSP.

In addition, our platform research department works on developing advanced capability for future-proofing the OSP.

Meanwhile, our 10x department seeks to invest in technologies that could be game-changing in the future.

FASTER PARTNER GROWTH

Ocado's innovations and the scalability of our solutions enable our partners to increase volumes and capture market share as online grocery penetration grows.

MORE PARTNERS

As we enhance OSP, it becomes more attractive to prospective partners.

INCREASED INVESTMENT

With increased scale, we are able to continuously invest in our people, our technology and our platform, to ensure we maintain a leadership position in the market for the long term.

Our Outputs



We Create Value for:

Partners

In the short to medium term: We offer our retail partners a faster, more flexible and more cost-efficient way of operating online grocery retail.

In the long term: We continue to innovate across the platform, software and hardware. This means driving continued efficiency improvements in the core as well as working on step change innovations, in grocery or synergistic fields, to further enhance the competitive advantage that OSP brings to partners.

Our People

In the short to medium term: We invest a significant amount of time and resources in recruiting talented employees and developing their skills, aiming to make Ocado an employer of choice.

In the long term: Our success is dependent on hiring employees globally. Our focus on growing and developing our people is a key message that we use to attract and retain the highest quality talent. We also remain committed to continuing to provide a competitive compensation package inclusive of salary, pensions and other benefits.

Society and Environment

In the short to medium term: OSP enables market-leading waste efficiency. In the UK, we continue to improve our carbon efficiency and maintain a near closed-loop recycling programme for the plastic bags used in deliveries.

In the long term: By leveraging the OSP, our partners can reduce their waste in both their own supply chains and customers' homes. On a global scale, investments like that in vertical farming have real potential to increase the quality of fresh food consumed while materially reducing the environmental impact of getting that product to consumers.

Shareholders

In the short term: We are investing heavily today to scale the Solutions business and develop the OSP platform, actively building future value.

In the long term: The addressable market opportunity in online grocery is huge, facilitating a long runway for growth. The technological know-how that we have developed is also applicable outside of grocery and we will seek the most compelling opportunities to leverage our expertise to drive future value in other verticals.

Keeping Ocado Group at the Forefront

Our focus on being a technology-led business, working with like-minded, forward thinking, pioneering business partners will keep Ocado Group at the forefront – developing tomorrow's technologies while simultaneously creating new opportunities.

Our proprietary technology, future innovations and the increasing scale of our partnerships supports our leading global position. Our competitive advantage is reinforced by the strength of the collective which today stands at nine partners and ourselves. This network positions us and our partners as “innovators” within the technology curve.



Network Effects: As the number of partners on the platform grows, we have more resources and rationale to innovate faster, to the benefit of all current and prospective partners

Insight: Analysing data to continuously improve operations

Idea Generation: Our global partners have the same thirst for innovation, and can share ideas in a collaborative process

Outcomes: Our end-to-end solution brings tailored and differentiated solutions to each market, enabling partners to serve a market-leading customer offer to drive future growth

Efficient: As we drive more automation in the platform, stripping out labour time and cost, the competitive advantage that OSP offers partners will continue to increase

Our Solutions Business

Partnership Opportunities

We offer the world's grocery retailers a unique, scalable, custom end-to-end e-commerce and fulfilment solution. We are building a platform that we expect to bring them market leading efficiency with the best possible operational economics, consumer experience and service. This ensures their continuing competitiveness against challengers, big and small.

We partner with grocery retailers that can become market leaders online, allowing us to be with the largest player in any given market. The greater the potential of each retail partner, the higher the value generated in the medium to long term.

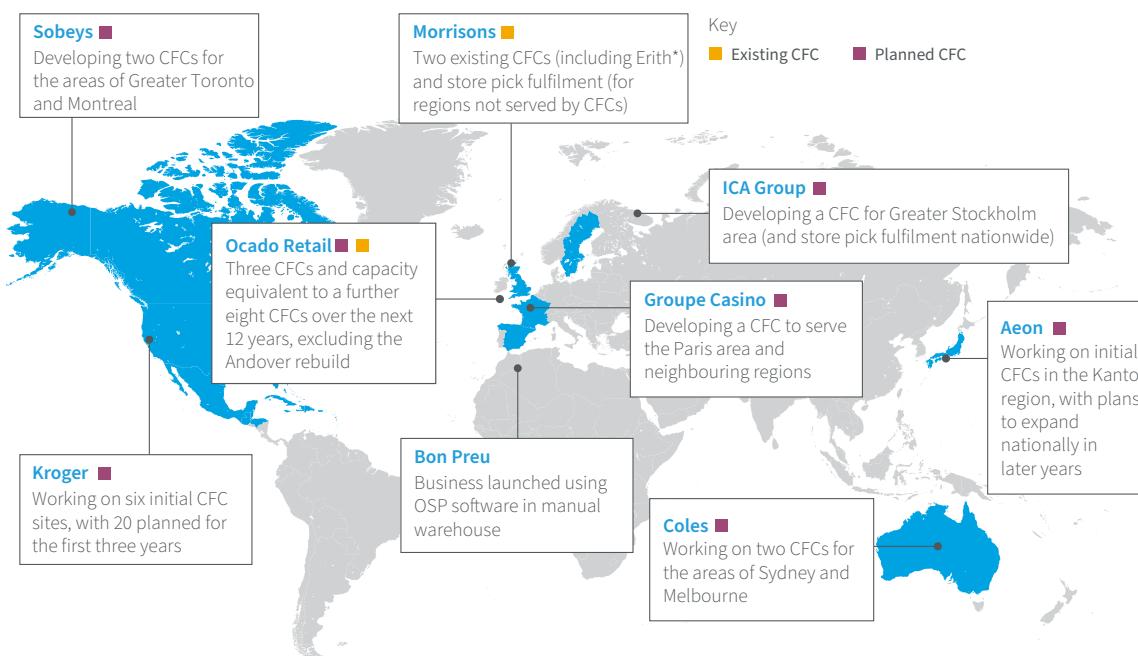
We Offer These Partners:

- Software: a cloud-based architecture that allows us to deploy the constantly updating OSP.
 - Fulfilment hardware: warehouse automation that can grow in a modular way.
 - Services and support: account management and support services to enable a smooth launch and ongoing support.

How We Typically Structure These Deals*

- **Short-term:** The signing-on fee is payable immediately when a new deal is signed.
 - **Medium-term (0-2 years):** The CFC preparation fees reflect the future size of the CFC and the costs associated with adapting the platform to the needs of the partner.
 - **Long-term (2+ years):** Capacity-related fees which grow as the partner takes on more capacity.

- * Due to IFRS 15, we will only recognise these fees as revenue once the solution has gone live.



* In May 2019, Morrisons and Ocado agreed to a temporary suspension of the Morrisons.com capacity at Ocado's Erith CFC. Morrisons.com will return to using its share of capacity in Erith in February 2021.

Timeline of Deals





Delivering for Partners

OSP development is a challenge of velocity not complexity



“Our success is grounded in growing and winning together with our partners; leveraging the unique capabilities of our solutions alongside the ambition, scale and market understanding of the world’s leading grocery retailers. We succeed when our partners succeed.”

Luke Jensen

Chief Executive Officer, Ocado Solutions

May 2018



Feb 2019



Mar 2019



Nov 2019





Ocado Retail

Introducing Melanie Smith, CEO of Ocado Retail

"We are ready for exciting changes ahead. We have completed the range review, preparing for when M&S food will be available online for the first time, together with the full, existing Ocado grocery range. We are planning fresh capacity and working to make our proposition even more compelling for customers. As a team, we could not be more excited."

Melanie Smith

Chief Executive Officer of Ocado Retail



It's been a busy, rewarding few months since I was appointed CEO of Ocado Retail, spent readying our business for the exciting changes ahead.

Our mission for the next year is clear. Firstly, preparing for "M&S at Ocado". From September 2020, customers will be able to buy M&S food and drink at Ocado.com – the first time the full M&S Food range will be available online to UK shoppers, and together with a full supermarket assortment of global, popular and artisan brands. The process is well underway, building on the strong preparatory work started by the team in March 2019, and there is work being done in every area of our business, from range reviews to product set-up to marketing plans.

We need to maintain strong growth. Following the fire at Andover, we have returned to double-digit growth, and we are well placed for that to continue next year. Ocado.com is outperforming the rest of the grocery market; Ocado Zoom continues to delight customers while serving a new immediacy mission, and our pet store Fetch has a strong position in a competitive market.

But we've only just begun. Our ambition is to become the biggest online grocer in the UK. Our customers already think we are the best in the market, with Net Promoter Scores significantly higher than our competitors. Our customer proposition is compelling: the most incredible choice of food, drink and home goods, at very fair prices, delivered with market-leading levels of ease and convenience.

As a partner to Ocado Solutions, we benefit from both the economics and service levels enabled by OSP's unrivalled end-to-end solution in grocery, as well as all future innovations to the platform. And through M&S, we will be introduced to a huge pool of potential new customers, access to industry-leading food innovation capabilities and exclusive access to the much-loved M&S range.

This will help us to supercharge our highly successful, award-winning operation, built on years of retail know-how and customer insight, with all the experience, focus and tools to innovate more and faster than ever before.

It's an enviable position to be in, and I'm incredibly excited about the year ahead – we are primed and ready to transform the online grocery market in the UK.

Melanie Smith

Chief Executive Officer of Ocado Retail





HELP US
CREATE A
Team Wall



①
Stick your photo
a speech

STORE ROOM





Strategy

Our Mission and Purpose

Changing the Way the World Shops

The new Ocado Retail joint venture with M&S gives Ocado.com all the tools to grow faster, while furnishing Ocado Group with the resources and bandwidth to focus on executing for our partners and continuing to improve the platform.

We are well on our way. The first two international CFCs are set to go live in the first half of 2020, with a continued ramp after that. With that in mind, our continued success in ramping up capacity at Erith this year has been crucial, learnings from which we can apply to all future openings.

Innovation is core to what we do, and this year saw some real milestones, with the launch of our immediacy trial via Ocado Zoom, the go-live of robotic picking in Erith, and our first investments seeking to leverage our technological expertise in other verticals.

"This year we have seen a shift in the centre of gravity at Ocado Group. We are now truly a technology-led global software and robotics platform business providing a unique end-to-end solution for online grocery to partners on a global scale."

Tim Steiner
Chief Executive Officer



Strategic Pillars

Driving Growth:

By creating solutions with real competitive advantages in grocery, and increasingly beyond, we facilitate sustained growth for our partners and in turn for our shareholders.



Improving the Proposition

Continually enhancing the value of our proposition for our Solutions partners, so that they can deliver an ever better service to their customers



Maximising Efficiency

Always striving to develop both our technology and operations, to consistently improve our economic and operating performance



Utilising Knowledge

Using our IP for future innovation, driving further opportunities for value creation within and beyond grocery



Actions



Enhance the platform to enable current and future partners' online businesses

Continuously develop new propositions so that partners can build tailored and flexible ecosystems to serve an evolving and comprehensive set of customer missions in their given markets.



Continuously develop more capital and operationally efficient infrastructure solutions

Operating efficiency:
Optimise every aspect of the fulfilment and delivery life cycle, to improve our economics and partner proposition.

Capital efficiency:

Continuously lower the cost of investment required for online grocery activities, to support growth for our platform partners.



Constantly improve end-to-end technology system solutions

Retain our technological leadership through ceaseless pursuit of innovation ahead of the market.

Use this cutting-edge IP to power our world-leading end-to-end e-commerce, fulfilment and logistics solutions.



Strengthen our brands

Reinforce the Ocado Group and Solutions brands based on partnership announcements and validity of the model. Promote the strength and value of our technology and engineering brands to attract the highest quality talent.

→ Read more on pages 34 to 36





Strategy

Improving the Proposition



Progress:

In 2019, Ocado Group expanded the number of retailers that will power their e-commerce operations with OSP and reached major milestones with our existing Solutions partners.

New partnerships:

Ocado Solutions established three new partnerships in 2019:

- In March, we signed a partnership with Coles in Australia to help develop their grocery e-commerce operations and jointly build two CFCs, one in Sydney and one in Melbourne.
- Upon completion of Ocado Group's Joint Venture with M&S, Ocado Retail also became an Ocado Solutions partner. It has committed to order capacity equivalent to a further eight CFCs over the next 12 years.
- In November, Ocado Solutions signed a partnership with Aeon to develop a fulfilment network to serve the whole of the Japanese market. Initial CFCs will serve the densely populated Kanto region, with the first going live in 2023. By 2030, Aeon expect sales capacity from the network of 600bn JPY, growing to 1tn JPY by 2035. Aeon is Ocado Solutions' first partner in Asia.

New milestones:

2019 was also a year of exciting milestones with our current partners.

- In February, Bon Preu launched their home delivery service and expanded their online reach to new geographies in Catalonia throughout the year.
- In March, we announced we would be establishing a permanent base for Ocado Solutions in North America. The office outside of Washington DC is an important step in coordinating the delivery of Ocado's technology, as well as support and engineering services, to sites across the USA and Canada.
- In May, we announced an agreement with Sobeys to develop a second CFC in Canada to serve customers across Ottawa and major cities in the Province of Quebec.
- Our partnership with Kroger has also developed at pace throughout 2019, with Kroger announcing CFCs across the USA. They have now announced the locations of six facilities in Ohio, Florida, Georgia, Texas, Wisconsin, and Maryland.

New solutions:

We also continued to develop our proposition to partners through the year – including expanding our fulfilment solutions across a mix of different sizes of facility. In doing this we continue to enhance the unique and flexible ecosystem available to our partners.

The success throughout the year of our Ocado Zoom trial in London and the announcement with Ocado Retail of our first mini-CFC near Bristol underline the flexibility of our solutions to serve both a wide range of customer missions and geographies.

New structures:

Throughout 2019 we have remained focused on our internal structures, ensuring they are aligned to support delivery of a growing number of partnerships, and to bring a long pipeline of new innovations to our partners' e-commerce operations.

The Ocado Group transformation project aims to ensure that teams across Ocado Group are organised to deliver effectively for future and current international partners, while maintaining the velocity of new innovations we are bringing to OSP.



FUTURE FOCUS:

As online grocery penetration continues to grow in markets worldwide, we are in the best possible position to help our partners continue to develop their online businesses, capture new market share and provide ever better experiences for their customers.

We look forward to the first CFCs going live shortly for international partners, with initial facilities for both Sobeys and Groupe Casino due to go live in the first half of 2020.

In the medium term we expect to sign more Ocado Solutions deals in a number of regions.

KPIS

CFCs committed worldwide*

50+

FY2018: 20+*

Ocado Solutions Partners Worldwide

9

FY2018: 6

* Sizes vary. The number reflects sales capacity equivalent to this many standard-sized CFCs

RISKS

- Risk of failing to deliver a sustainable operational infrastructure able to execute effectively the requirements for multiple Ocado Solutions contracts, simultaneously in many international locations
- Risk that current Solutions pricing levels may not provide both acceptable returns for our shareholders, if efficiencies are not achieved and attractive long-term cost of ownership for our clients, whilst delivering a viable fully operational end-to-end customer experience.



Maximising Efficiency



Operational efficiency

We drive efficiencies throughout every process of our operations, from customer-facing interfaces in the webshop, inventory management systems and fulfilment, to the routing software that supports their deliveries. We achieve this by adhering to three design principles: automation, use of our own technology and centralisation.

Progress

- Reducing the long-term costs of ownership of our fulfilment solution, the combination of capital and running costs, is critical as we scale. A key part of this is developing new generations of bots.
- We are in the final validation phases of our third generation bot, which will underpin our international roll-out with partners. This bot has been setting new benchmarks of performance in its operation, ease of manufacture and serviceability. Continued investment in the software driving our bot fleet will see still further improvements in operational performance.
- We measure efficiency within CFCs by average units processed per labour hour (UPH). In our mature CFCs in operation in the UK, this year UPH was 168. At maturity, we expect our fourth CFC in Erith to operate at 200+ UPH, a level we also expect to achieve for partner CFCs internationally.
- Delivery efficiency, as measured by average deliveries per van per week (DPV) of 196, approaching our refreshed target of 200.
- We reduced our rate of food waste to just 0.4% of sales, from a position that was already the lowest in the industry (0.8% at FY18). This was the result of further technological improvements to our end-to-end operational capabilities across demand forecasting, inventory management and fulfilment.



FUTURE FOCUS

We are always looking for ways to apply our technology to improve our operational efficiency, with both core business-sponsored and more speculative research underway.

A good example of this is the robotic picking and packing of customer orders. In grocery, this challenge is especially difficult, due to an extensive product range of varying characteristics, and the need to both pick products and pack them into bags. After over a year in our “living lab”, the first of our robotic picking solutions moved into live assistance on real customer orders in the second half of 2019. We aspire to reach efficiency levels similar to a human, for a portion of the range, by the end of 2020.

Capital efficiency

The proprietary technology we use in our newer CFCs enables our partners to achieve an attractive return on investment, even before any further efficiency benefits from other innovations such as

robotic picking. As we continue to develop new CFCs, at scale, we are able to further improve the capital efficiency of our operations.

The modular nature of the mechanical handling equipment (MHE) solution allows for reduced upfront capital commitment, and enables real flexibility in customising the solution to the varying capacity requirements of our partners.

Progress

- With the need to bring new capacity online, further exacerbated by the fire at Andover, we are pleased with the speed with which we have been able to ramp our fourth CFC in Erith, which at maturity will be the largest automated facility for grocery fulfilment in the world. At year end, the site was running at over 70,000 orders per week, around a third of its projected volume at maturity. Just as we successfully applied our learnings from Andover to significantly improve our ability to deploy and ramp up Erith, every lesson we learn at Erith, every enhancement to automation and software, is quickly transferable to every future partner site.



FUTURE FOCUS

We continue to expect to see further improvements in the speed of deployment allowing for reduced upfront capital commitment and shorter ROI timescales, automation enhancements that further increase throughput, and the gradual introduction of robotic picking for additional efficiency gains. By adding more partners to the platform, we will also see the benefits of increased scale.

As we continue to progress our operational CFCs in the UK and go live with our international CFCs, new learnings will naturally be passed on to the benefit of all our Solutions partners.

KPIs

UPH

168

FY2018: 164

DPV

196

FY2018: 194

RISKS

- Delays in implementing new capacity.
- Risk of failing to deliver a sustainable operational infrastructure able to execute effectively the requirement for multiple Ocado Solutions contracts, simultaneously in many international locations.

Strategy

Continued

Utilising Knowledge



Intellectual Property

Ocado's founding vision was to change the way the world shops through disruptive technology innovation and automation. Today, that vision is well on the way to being realised as Ocado's innovations are transforming the grocery sector on a global scale.

Over two decades, we have been developing some of the world's most advanced capabilities across AI, Machine Learning, data science, robotics, the Internet of Things, cloud technologies, simulation and modelling, and digital twins. Due to the sheer complexity of the grocery industry, we have developed technologies, solutions and platforms that successfully solve many complex, previously untouched sector problems.

As one of the most difficult segments to deliver profitably, online grocery has been a powerful vehicle for acquiring a host of other innovation assets, such as competencies, intellectual property, data, and know-how.

Our cutting-edge intellectual property coupled with the innovation assets we have acquired along our journey will help enable our partners to remain competitive, now and in the future. We hold many patents which make our solution unique and irreplicable.

We are actively exploring opportunities to apply these innovation assets to disrupt and transform many other sectors, some of which are very far from online grocery.

Progress

- In March, we launched a trial of our immediacy solution, Ocado Zoom, to deliver orders from a product range of over 10,000 SKUs to customers in West London within 60 minutes of ordering. This proposition was enabled by our unique model of centralised fulfilment and wide-ranging distribution network. Ocado Zoom will open up new opportunities for growth in the UK.
- We have completed the replatforming of our Bot software, enabling higher efficiency across our entire bot fleets and integration with the digital twin of our highly automated warehouse. Our third generation bot has nearly 100% new components compared to the second generation bot and is on track for production in early 2020.
- In July 2019, our first robotic picking cell went into production in Erith. The robotic arm picks individual items for real customer orders. We are expecting the introduction of additional robotic picking cells throughout 2020 and beyond.
- To support our rapid growth and the accelerated adoption of OSP, we are actively growing our talent pool. We now have over 1,600 technology employees based in development centres in

the UK, Bulgaria, Poland and Spain. In July, we announced the opening of our first London office, expanding our network of development hubs and further improving our access to top tech talent.

- In May 2019, we made an investment in Karakuri, a start-up focused on developing robotic solutions for food preparation and dark kitchens.
- In June 2019, we announced investments in two vertical farming businesses. The first is Jones Food Company who are growers operating Europe's largest vertical farm based in Scunthorpe, England. The second is Infinite Acres who are developing technology for vertical farming. We see these companies as being highly synergistic to our core business and indeed to one another.

Patents

Safeguarding our cutting-edge IP is instrumental for retaining our competitive advantage. We have a dedicated in-house IP team and our IP experts are embedded within given research areas.

Innovators and IP professionals collaborate closely to generate IP from research and development work performed with not only a focus on protecting innovation with respect to our core products, but also in blue-sky research and potential uses of our technology in other verticals.

As the innovating teams grow, the IP team grows enabling close and agile working between the IP and technical functions. The IP team benefits from both a macroscopic and microscopic view of Ocado's business enabling IP protection to closely align with business strategy.

Progress

- We now hold 159 granted patents across 28 innovation families.

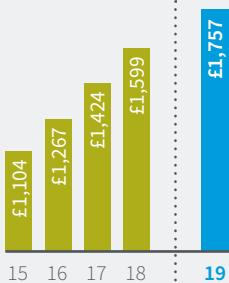
RISKS

- Technological innovation supersedes our own and offers improved methods of food distribution to consumers.
- Failure to safeguard cutting-edge IP thus lowering barriers to entry.
- Failure to ensure technology can freely operate without infringing a third party's IP.



Key Performance Indicators

Revenue (Group) (£m)



Why we use this measure

Measures growth at Group level reflecting revenue from the Ocado Retail joint venture, and our UK and International Solutions businesses.

2019 performance

9.9% vs 2018

Strategic link



EBITDA (Group) (£m)



Why we use this measure

Measures operating profitability at a Group level reflecting the Ocado Retail joint venture and our UK and International Solutions segments.

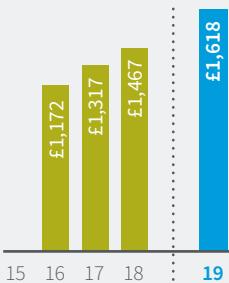
2019 performance

(27.2%) vs 2018

Strategic link



Revenue (Retail) (£m)



Why we use this measure

Measures revenue growth of the Ocado Retail joint venture.

2019 performance

10.3% vs 2018

Strategic link



EBITDA (Retail) (£m)



Why we use this measure

Measures operating profitability of the Ocado Retail joint venture.

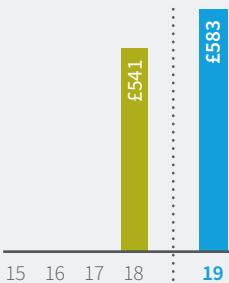
2019 performance

16.1% vs 2018

Strategic link



Revenue (UK Solutions & Logistics) (£m)



Why we use this measure

Measures revenue growth of our UK Solutions & Logistics business.

2019 performance

7.8% vs 2018

Strategic link



EBITDA (UK Solutions & Logistics) (£m)



Why we use this measure

Measures operating profitability of our UK Solutions & Logistics business.

2019 performance

25.7% vs 2018

Strategic link



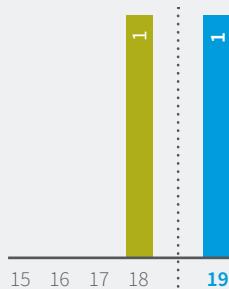
Note: 2019 Group EBITDA, UK Solutions & Logistics EBITDA and PBT reflect the impact of IFRS 16.



Key Performance Indicators

Continued

Revenue (International Solutions) (£m)



Why we use this measure

Measures revenue growth of our International Solutions business.

2019 performance

0.0% vs 2018

Strategic link



EBITDA (International Solutions) (£m)



Why we use this measure

Measures operating profitability of our International Solutions business.

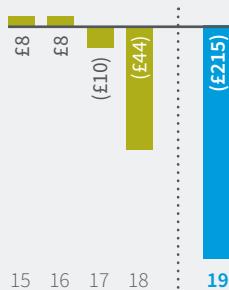
2019 performance

(118.6%) vs 2018

Strategic link



PBT (Group) (£m)



Why we use this measure

Measures profitability at Group level reflecting the profit of the Ocado Retail joint venture and our UK and International Solutions business.

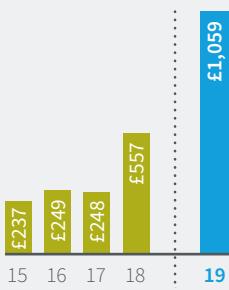
2019 performance

(383.1%) vs 2018

Strategic link



Net Assets (Group) (£m)



Why we use this measure

Measures the surplus between total assets and total liabilities at Group level.

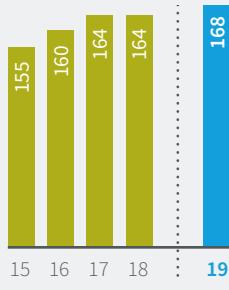
2019 performance

90.1% vs 2018

Strategic link



Mature CFC Efficiency (UPH)



Why we use this measure

Measures CFC operational efficiency

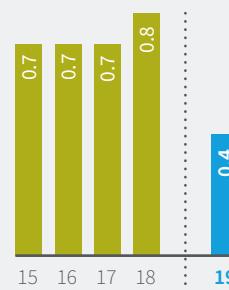
2019 performance

1.8% vs 2018

Strategic link



Product Waste (%)



Why we use this measure

Measures efficiency of our operations in terms of waste minimisation: the lower the better.

2019 performance

(0.4ppt) vs 2018

Strategic link



Note: 2019 Group EBITDA, UK Solutions & Logistics EBITDA and PBT reflect the impact of IFRS 16.
Note: Product waste 2018 and 2019 excludes Fabled.



Average Order Size (£) (Ocado.com)



Why we use this measure

Measures aggregate impact on average shopping basket within our Retail business.

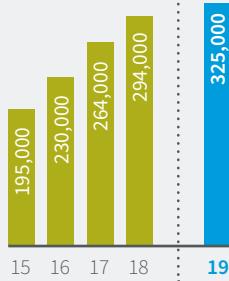
2019 performance

(0.3%) vs 2018

Strategic link



Average Orders Per Week (Ocado.com)



Why we use this measure

Measures order growth in our Retail business.

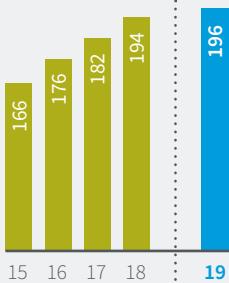
2019 performance

10.7% vs 2018

Strategic link



Average Deliveries per Van per Week



Why we use this measure

Measures efficiency of our service delivery operation.

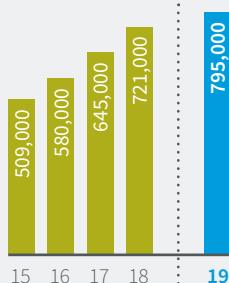
2019 performance

1.0% vs 2018

Strategic link



Active Customer Base



Why we use this measure

Measures growth in our core customers who shopped in the last 12 weeks.

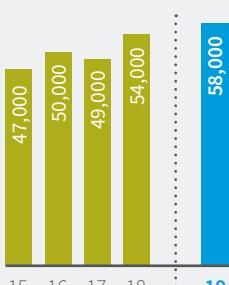
2019 performance

10.3% vs 2018

Strategic link



SKU Count (Hypermarket)



Why we use this measure

Measures growth in range offered at Ocado.com, not including stand-alone sites.

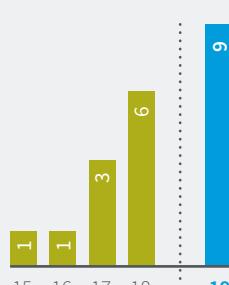
2019 performance

7.4% vs 2018

Strategic link



Number of Ocado Solutions Partnerships Signed to Date



Why we use this measure

Measures partner growth within our Solution business.

2019 performance

50% vs 2018

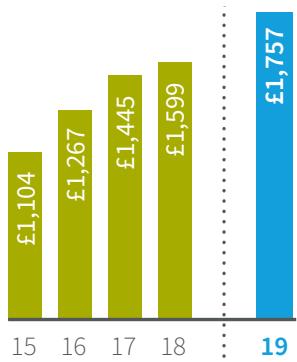
Strategic link





Chief Financial Officer's Review

Revenue (£m)



For the period to 1 December 2019, we maintained significant sales growth in a competitive environment whilst transforming our business.

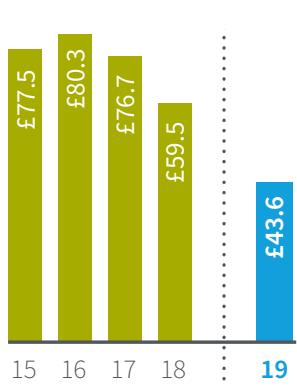
The Group has secured two new partnerships in Australia and Japan, completed a transformational deal with M&S in the UK and significantly increased financial headroom. The Retail business continued to deliver double digit retail revenue growth, despite losing the CFC Andover capacity as a result of a fire, and continued to innovate with new propositions such as Ocado Zoom. Profitability in the period was impacted by the significant international investments in our platform to support future growth, the first full year of operational costs of our new facility in Erith, share-based management incentive charges, and additional depreciation. In addition, there were £94.1 million of exceptional costs, principally due to costs relating to the Andover CFC fire and resulting in loss before tax was £214.5 million.

The commentary is on a pre-exceptional basis² to aid understanding of underlying performance of the business.

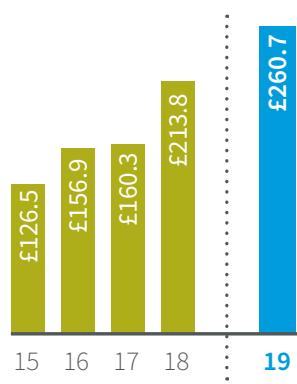
IFRS 16 “Leases”

The Group has early adopted IFRS 16, the new accounting standard for leases and as a result the key alternative performance measure, EBITDA, has improved. This new standard requires the majority of leases to be recognised on the balance sheet as Right of Use Assets, generating depreciation and interest charges, which fall below EBITDA, in place of lease expenses which would have previously been included in the calculation of EBITDA. The comparative period FY2018 has not been restated. The cumulative impact on prior periods is reflected by adjusting opening reserves at 3 December 2018. Detailed impact on the 2019 results is provided below, with additional disclosures provided in note 1.3 to the financials.

EBITDA (£m)



Capital Expenditure (£m)



“Group revenue for the period has grown by 9.9% in comparison to 2018 revenue of £1,598.8 million.”

^④ See Alternative Performance Measures on pages 227 and 228.



Group Results

	Pre-Exceptional FY 2019 £m	Exceptional Items	Total FY 2019 £m	FY 2018 £m	Pre-Exceptional Variance
Revenue⁽¹⁾	1,756.6	-	1,756.6	1,598.8	9.9%
Gross profit	597.3	(5.5)	591.8	547.5	9.1%
Other income	83.9	23.8	107.7	71.9	16.7%
Distribution and administrative costs (pre IFRS 16)	(664.0)	(12.3)	(676.3)	(561.1)	18.3%
Reduction in costs relating to IFRS 16	25.4	-	25.4	-	n/a
Share of results from joint ventures and associates ⁽⁴⁾	0.7	-	0.7	1.2	(41.7%)
EBITDA⁽²⁾	43.3	6.0	49.3	59.5	(27.2%)
Depreciation, amortisation and impairment ⁽³⁾	(136.1)	(99.0)	(235.1)	(91.4)	(48.9%)
Loss on disposal of subsidiary	-	(1.1)	(1.1)	-	-
Net Finance costs	(27.6)	-	(27.6)	(12.5)	(120.8%)
(Loss) before tax	(120.4)	(94.1)	(214.5)	(44.4)	(171.2%)

(1) Revenue is online sales (net of returns) including charges for delivery but excluding relevant vouchers/offers and value added tax. The recharge of costs to our UK Solutions clients and International Solutions clients are also included in revenue with the exception of recharges to Ocado Retail which are eliminated on consolidation.

(2) EBITDA[®] is stated before the impact of exceptional items* unless stated otherwise in the column-based presentation above.

(3) FY2018 is not restated for IFRS 16. For more details of IFRS 16 refer to note 1.5 in the financial statements (also see the Accounting Seminar presentation at <https://www.ocadogroup.com/investors/reports-and-presentations/year/all>)

(4) Share of results from joint ventures relates to joint ventures where the Group does not exercise control such as MHE JVCo and Jones Food Company. The Ocado Retail joint venture, over which the Group exercises control, is not included as the results are fully consolidated.

Group revenue for the period has grown by 9.9% in comparison to 2018 revenue of £1,598.8 million. This was driven by an increase in the average number of orders per week, despite the capacity limitations following the fire at CFC Andover. Gross profit grew steadily despite the competitive nature of the market. Other Income increased by 16.7% to £83.9 million, driven by increased media income from suppliers through Ocado.com and an additional research and development tax credit of £4.6 million.

EBITDA before the impact of exceptional items and IFRS 16 for the period was £17.9 million (FY 2018: £59.5 million). The decline was driven by the increased investment in developing the head office teams required to support our international growth; costs for a full year of operation for Erith CFC; lower fee income from Morrisons due to a revised agreement which temporarily releases Erith capacity; and higher share incentive costs in the period.

Depreciation, amortisation and impairment increased by 48.9% to £136.1 million, of which £19.8 million relates to the impact of IFRS 16, with the balance driven primarily by a full year of depreciation for Erith CFC.

Net finance costs increased from £12.5 million to £27.6 million, which includes £14.9 million for the impact of IFRS 16. The remaining balance primarily consists of finance costs relating to the Senior Secured Notes.

As a result of the above and exceptional items of £94.1 million, the statutory loss before tax for the period was £(214.5) million (2018: loss of £44.4 million).

* See Alternative Performance Measures on pages 227 and 228.



Chief Financial Officer's Review

Continued

A review of 2019

This has been a period of rapid change for Ocado and several events have had a material impact on the results for the period. To aid understanding of the numbers, a summary of these is given below.

Andover CFC

In February 2019, a fire destroyed the Andover CFC, including the building, machinery and all inventory held on site. The Group has comprehensive insurance and claims have been formally accepted by the insurers. Due to the capacity constraints following the Andover CFC fire, the Group agreed with Morrisons to temporarily suspend their access to capacity in Erith CFC during the period in exchange for lower store pick fees and no cost recharges for this CFC.

In addition there is a net cost in exceptions of £88.0 million relating to the Andover CFC comprising £111.8 million of costs including the write off of assets lost in the fire, offset by £23.8 million of insurance proceeds recognised to date.

Ocado International Solutions

During the year, the Group signed two new partnerships in Asia Pacific. Our first agreement is with Coles Group Ltd ("Coles") in Australia to develop initially two CFCs, expected to open by 2023, alongside the transition of its existing store-pick based operations to the Ocado Smart Platform. The second agreement, announced in November, is with Aeon in Japan to develop up to three CFCs initially.

In May, Sobeys Inc. ("Sobeys"), an existing partner in Canada, agreed to build a second CFC in Point-Claire, Montreal.

These additional agreements contributed to the increase in head office costs but there was no associated revenue recorded in 2019, in accordance with IFRS 15.

Formation of the Ocado Retail Joint Venture with Marks and Spencer ("M&S")

In February 2019, the Group announced the creation of a new 50:50 joint venture with M&S. The joint venture comprises Ocado's UK retail business, Ocado.com, supported by a new partnership for Solutions services underpinned by the Ocado Smart Platform and the provision of branding and sourcing from M&S. Currently Ocado.com carries almost 55,000 different products, of which approx. 3,500 are Waitrose own label products. We will switch over to M&S by September 2020, after which time Ocado.com will continue to range Ocado own label and this extensive range of branded products, and M&S products will be available on Ocado.com replacing Ocado's current sourcing agreement with Waitrose Limited. M&S paid Ocado £562.5 million in upfront cash and agreed a deferred cash payment of £187.5 million up to five years after completion, dependent on the satisfaction of certain financial and operational conditions.

On 20 May 2019 the transaction was approved by Ocado's shareholders at an extraordinary general meeting and the transaction completed in Q3 2019. Ocado continues to consolidate the results of Ocado Retail, the share of the results attributable to M&S is shown as a non-controlling interest and the costs relating to the disposal of shares are primarily accounted for in equity. Any other costs relating to the transaction are accounted for in exceptional items.

Changes to Segment Reporting

The Group has determined that there are now three reportable segments following the sale of 50% of Ocado Retail to M&S during the year. These are Ocado Retail which provides online grocery and general merchandise offerings to customers within the United Kingdom, UK Solutions & Logistics which provides the end-to-end online retail solution, the operation of CFCs and logistics services for UK based partners Ocado Retail and Morrisons, and International Solutions which provides the end-to-end online retail solution to our partners outside the United Kingdom.

IFRS 16 Impact in 2019

In the period, the Group early adopted the IFRS 16 accounting standard. The Group chose not to restate the comparative period FY2018 in accordance with the guidelines of the standard. The impact of IFRS16 on the segmental results is a reduction in costs of £14.8 million for the Ocado Retail segment and £10.6 million for the UK Solutions and Logistics segment. The full impact on the profit and loss statement including the impact on depreciation and finance costs is below:

	FY 19 £m
IFRS 16 impact	
Distribution and Administrative costs	25.4
Depreciation, amortisation and impairment	(19.8)
Net Finance Costs	(14.9)
Profit before tax	(9.3)

Growth of new venture investments

In the period, the Group announced two complementary investments, a joint venture, Infinite Acres Holdings BV, with 80 Acres Farm Inc. and Priva Holdings BV, along with the purchase of a 64% stake in Jones Food Company. We believe that these investments at a cost of less than £17 million will add to the significant portfolio of technologies and know-how that we are building to revolutionise the way customers access fresh food. The Group also made smaller investments in a robotics start-up company and a 3D printing company, both of which are minority stake investments.

There is no material impact to the results for these developments in the 2019 Financial year.

Sale of Fabled to Next

In early summer, the Group agreed to sell Fabled to Next which occurred during the year. The disposal completed in early July with a net loss of £1.1 million accounted for in exceptional items.

Trading review by segment

Segment revenue and Segment EBITDA® are shown below, in line with the Group's new segments. During the period the Group determined that there are three reportable segments, which reflect the structure of the Group post the sale of 50% of Ocado Retail to M&S. For comparability purposes, the numbers by segment for FY2018 have been re-presented on a basis consistent with the Group's new segments. More details of segment reporting are included in note 2.1 of the financial statements.

® See Alternative Performance Measures on pages 227 and 228.

Retail Performance

	FY 2019 ³ £m	FY 2018 ³ £m	Variance
Revenue	1,617.5	1,466.6	10.3%
Gross profit	466.4	423.6	10.1%
Other income	65.6	59.8	9.7%
Distribution costs ⁽¹⁾	(433.8)	(388.4)	11.7%
Marketing (non-voucher)	(21.2)	(13.9)	52.5%
Other administrative costs ⁽¹⁾	(56.8)	(51.0)	11.4%
IFRS 16 Impact	14.8	—	—
EBITDA⁽²⁾	35.0	30.1	16.3%

- (1) Distribution and administrative costs exclude depreciation, amortisation and impairment for the period.
 (2) EBITDA⁽²⁾ does not include the impact of exceptional items⁽³⁾.
 (3) Retail segment has been represented for FY2018. For further details refer to note 2.2 of the financial statements.

Retail revenue⁽²⁾ growth of 10.3% was primarily due to a 10.7% year-on-year increase in orders per week to 325,000 (2018: 294,000) driven by an increase in the number of new customers. The average basket at Ocado.com of £103.18 decreased slightly by 0.6% compared to 2018.

Gross profit

Gross profit was up 10.1% to £466.4 million, driven by higher order volumes and improved cost prices.

Other income

Other income increased by 9.7% to £65.6 million (2018: £59.8 million) with supplier income increasing year-on-year by 11.9% to £63.9 million (2018: £57.1 million) equivalent to 3.9% of retail revenue⁽²⁾ (2018: 3.9%).

Distribution and administrative costs

	FY 2019 £m	FY 2018 £m	Variance
CFC	143.4	123.4	16.2%
Trunking and Delivery	197.7	181.3	9.0%
Other operating costs	92.7	83.7	10.8%
Total Distribution costs	433.8	388.4	11.7%

Distribution costs predominantly consist of fulfilment and delivery operation costs which are provided to Ocado Retail by the Ocado UK Logistics operation.

CFC costs increased from £123.4 million to £143.4 million, an increase of 16.2% year-on-year. The rate of growth was primarily due to the increased number of customer orders combined with the costs of the full year of operation of the Erith CFC. An agreement was reached with Morrisons for them to withdraw temporarily from the Erith CFC and so to release additional capacity at Erith CFC to Ocado.com, but this meant that Ocado was responsible for all the fixed costs at this site whilst it is in early stages of growth.

Mature CFC (defined as CFC1 and CFC2) UPH improved by 1.8% to 168 UPH, driven mainly by improvements at Dordon CFC.

⁽²⁾ See Alternative Performance Measures on pages 227 and 228.

Trunking and delivery costs increased by £16.4 million to £197.7 million, an increase of 9.0% year-on-year (2018: £181.3 million). This is due to increases in wage-related and vehicle costs as a result of greater order volumes and inflationary cost pressures, offset by efficiencies as deliveries per van per week have risen by 1% to 196 (2018: 194) as customer density improved and with further enhancements to our routing system.

Other operating costs include the costs associated with provision of the OSP and Logistics services to Ocado Retail by UK Solutions & Logistics of £81.8 million (2018: £73.2 million).

Marketing costs excluding voucher spend increased from £13.9 million to £21.2 million, 1.3% as a percentage of retail revenue (2018: 0.9%) up on the prior period due to increases in online acquisition, particularly following the disruption from the fire in Andover, and trialling of an offline media campaign.

Other administrative costs increased by £5.8 million, 11.4%, to £56.8 million to support underlying business growth and the establishment of Ocado Retail as a stand alone business unit.

The implementation of IFRS 16 by the Group impacts the Ocado Retail segment because most of the owned and leased assets of the Group are used by this business segment.

EBITDA⁽²⁾

EBITDA⁽²⁾ excluding exceptional items for the retail business was £35.0 million (2018: £30.1 million). We expect EBITDA growth ahead of revenue growth in 2020.

UK Solutions & Logistics Performance

	FY 2019 £m	FY 2018 £m	Variance
Fee revenue	109.9	104.3	5.4%
Cost recharges ⁽¹⁾	473.3	436.8	8.4%
Revenue	583.2	541.1	7.8%
Other Income	3.0	2.6	15.4%
Distribution costs	(468.4)	(431.0)	8.7%
Administrative costs	(43.5)	(45.2)	3.8%
Share of JV	(0.1)	—	—
IFRS 16 Impact	10.6	—	n/a
EBITDA⁽²⁾	84.8	67.5	25.6%

(1) Cost recharges include cost recharges to Ocado Retail of £453.7 million which eliminate out on consolidation

Revenue

Revenue from the UK Solutions & Logistics business was £583.2 million, up from £541.1 million in 2018. This comprises a recharge of relevant operational variable and fixed costs to UK partners Ocado Retail and Morrisons, as well as fees to access Ocado's technology platforms, capital recharges, management fees and research and development.



Chief Financial Officer's Review

Continued

Other income

Other Income increased to £3.0 million (2018: £2.6 million) primarily related to rental received from Morrisons in respect of Dordon CFC rent recharges.

Distribution and administrative costs

Distribution and administrative costs consist of fulfilment and delivery operations costs for Ocado Retail and Morrisons, charged from UK Solutions, as well as head office costs. Distribution costs were £468.4 million and increased 8.7% due to increased volumes, additional fixed costs for a full year of operation of Erith and wage increases, offset by cost efficiencies in both CFC trunking and delivery operations.

Administrative costs were £43.5 million and decreased slightly year-on-year following the organisation changes with the establishment of Ocado Retail as a stand alone business unit and increased focus of central resources on our International Solutions business.

The implementation of IFRS 16 by the Group impacts the UK Solutions and Logistics segment because some of the owned and leased assets of the Group are used by this business segment.

EBITDA®

EBITDA® from our UK Solutions & Logistics activities was £84.8 million, an increase of £17.3 million. Excluding the impact of IFRS16 on 2019, EBITDA grew by £6.7 million or 9.9%.

International Solutions Performance

	FY 2019 £m	FY 2018 £m	Variance
Fees invoiced	81.4	58.8	38.4%
Revenue	0.5	0.5	–
Distribution and administrative costs®	(62.5)	(28.9)	116.3%
EBITDA®	(62.1)	(28.4)	118.3%

Fees and Revenue

Fees invoiced amounted to £81.4 million (2018: £58.8 million). Fees relating to OSP are not recognised as revenue until a working solution is delivered to the partner. In 2019 revenue recognised from the International Solutions business was in line with the prior year. Revenue is expected to continue to increase from 2020 when our first international CFCs commence operations and further commitments are received for new CFCs from our clients.

Administration costs primarily consist of the non-capitalised costs of employees who are developing OSP and other costs supporting our international partnership agreements. These costs grew year-on-year as a result of the increase in headcount to support building further capabilities to sign future clients, increased people, travel and cloud costs to support existing international clients in launching the CFCs and further improvements in our platform.

EBITDA®

EBITDA® from our International Solutions activities was a loss of £(62.1) million (2018: £(28.4) million).

Other Segment

EBITDA loss was £(14.4) million in the current period (2018 loss: £(9.7) million). The other segment represents revenue and costs which do not relate to the other three segments. This includes board costs, the results of the Fabled business that was divested during FY19 and the consolidated results of Jones Food Company. The increase in costs is primarily due to an increase in share-based senior management incentive charges (further information can be found in the Remuneration report on page 99), offset by reductions in losses for Fabled which was sold in July and £4.1 million of research and development tax credits.

Exceptional Items

	FY 2019 £m	FY 2018 £m
Andover CFC		
Write off of property, plant and equipment	(96.9)	–
Write off of intangible assets	(2.1)	–
Loss of inventory	(5.5)	–
Insurance reimbursement	23.8	–
Other exceptional costs	(7.3)	–
Total Andover Exceptional	(88.0)	–
Disposal of Fabled	(1.1)	–
Set up costs for the joint venture with Marks & Spencer	(3.4)	–
Litigation costs	(1.3)	(0.1)
Other exceptional items	(0.3)	–
Total exceptional items	(94.1)	(0.1)

Andover CFC

In February 2019, a fire destroyed the Andover CFC, including the building, machinery and all inventory held on site. The Group has comprehensive insurance cover and claims have been formally accepted by the insurers. Property, plant and equipment with a net book value of £96.9 million was destroyed or damaged to the extent that no amount is expected to be recoverable. Inventory held at a cost of £5.5 million was destroyed by the fire.

Insurance reimbursement of £23.8 million has been recognised for initial capital expenditure on rebuild, for business interruption costs incurred to date and the value of destroyed inventory at retail price. An insurance reimbursement asset has been recognised on the balance sheet for the restoration of the original asset on site as well as a corresponding provision representing the obligation to reinstate the building.

There have been a number of other exceptional costs as a result of the fire which include, but are not limited to, temporary costs of transporting employees to other warehouses to work, professional fees relating to the insurance claims process, reimbursement of employee's personal assets that were destroyed and a restructuring provision that has been recognised as a result of the formal redundancy consultation that commenced in May 2019.

® See Alternative Performance Measures on pages 227 and 228.



The Group expects to receive further insurance reimbursements in respect of reconstruction costs and business interruption losses. Claim negotiations are ongoing and the Group has not recognised any amount in respect of this as the recoverability and final amount are not yet virtually certain. Exceptional income will be recognised in the future as the costs of rebuilding the CFC and business interruption are incurred.

Disposal of Fabled

Loss on disposal of Fabled and Legal costs were incurred in relation to the sale of Fabled.

Joint venture with M&S

Whilst certain costs relating to the transaction are permitted to be accounted for directly within equity, there are others that do not meet the requirements and as a result have been reported as exceptional costs.

Litigation costs

The Group has made a claim for damages and for injunctive relief against Jonathan Faiman, Jonathan Hillary and Project Today Holdings Limited, a software and online fulfilment company, because of the misappropriation and unlawful misuse of Group confidential information and Intellectual Property. The Defendants' business trades under the names "Today Development Partners" (TDP) or "Today". We strongly believe in the merits of our case. Ocado's intellectual property is its greatest asset and represents a significant portion of the Group's value; we have spent the last 20 years developing our intellectual property, technology and know-how. The Group relishes fair competition, but will vigorously protect its intellectual property and challenge any individual or organisation that uses unlawfully obtained information, either directly or indirectly. The Group is resolute that it will protect all of its stakeholders' interests.

Legal and other costs have been incurred to recover the misappropriated items and seek compensation. We will seek recovery of our costs from the Defendants in the usual way.

Group Performance

	FY 2019 £m	FY 2018 £m	Variance
EBITDA®	43.3	59.5	(27.2)%
Depreciation, amortisation and impairment	(136.1)	(91.3)	(49.1)%
Net Finance costs	(27.6)	(12.5)	(120.8)%
Exceptional items	(94.1)	(0.1)	-
(Loss) before tax	(214.5)	(44.4)	(383.1)%
(Loss) after tax	(211.8)	(44.9)	(371.7)%

Depreciation, amortisation and impairment

Total depreciation and amortisation costs were £136.1 million (2018: £91.3 million), an increase of 49.1% year-on-year. The increase in year-on-year costs reflects IFRS16 increasing the depreciation charge by £19.8 million as well as the first full year of operation of the Erith CFC and software that was brought into use following the launch of International Store Pick applications in mid 2018.

® See Alternative Performance Measures on pages 227 and 228.

Net finance costs

Net finance costs of £27.6 million include an adjustment for IFRS16 of £14.9 million; excluding this, net finance costs increased from £12.5 million to £12.7 million. This primarily consists of finance costs relating to the Senior Secured Notes.

£0.1 million of interest costs have been capitalised in the period in relation to the senior secured notes and the RCF in accordance with the relevant accounting standards (2018: £2.8 million).

Share of result from joint ventures and associates

The Group has accounted for the share of results from two joint ventures; MHE JVCo Limited ("MHE JVCo"), a joint venture with Morrisons, and Infinite Acres Holdings BV, a vertical farming company jointly owned with 80 Acres Farm Inc. and Priva Holdings BV. MHE JVCo holds Dordon CFC assets, which Ocado uses to service its and Morrisons' online business and is owned jointly by Ocado and Morrisons. The Group share of MHE JVCo profit after tax in the period amounted to £1.0 million (2018: £1.2 million). Infinite Acres Holdings BV was acquired during FY2019, and contributed a loss of £0.3 million to the Group's results in the period.

Loss before tax

Loss before tax for the period was £(214.5) million (2018: loss of £(44.4) million).

Taxation

Due to the availability of capital allowances and Group loss relief, the Group has not recognised a corporation tax charge for the period. No tax was incurred in the period in relation to the sale of the shares of Ocado Retail as the gain on the sale of shares is covered by the substantial shareholdings exemption. A deferred tax credit of £2.7m was recognised in the period. Ocado had £284.7 million (2018: £256.4 million) of unutilised carried forward tax losses at the end of the period.

Dividend

During the period, the Group did not declare a dividend.

Loss per share

Loss and diluted loss per share were (29.23)p (2018: (6.85)p).



Chief Financial Officer's Review

Continued

Capital expenditure

Capital expenditure for the period:

	FY 2019 £m	FY 2018 £m
Mature CFCs	5.4	6.2
New CFCs	42.1	80.3
International CFCs	70.9	10.9
Delivery assets	17.0	21.7
Technology	71.4	54.8
Fulfilment Development	33.3	21.2
Other	20.0	18.1
Total capital expenditure^{(1), (2)} (excluding share of MHE JVCo)	259.9	213.2
Total capital expenditure⁽³⁾ (including share of MHE JVCo)	260.7	213.8

(1) Capital expenditure includes tangible and intangible assets.

(2) Capital expenditure excludes assets leased from MHE JVCo under lease liability arrangements.

(3) Capital expenditure includes Ocado share of the MHE JVCo capex in 2019 of £0.8 million and in 2018 of £0.6 million.

Capital expenditure in mature CFCs in the period mainly related to the Hatfield CFC for a number of small projects to improve the capacity and resilience of this site.

We invested over £40 million in the period for our new UK CFCs. This included £38 million relating to the development work for Erith as it is currently scaling up operations with an expected eventual capacity of over 200,000 OPW.

Total expenditure on new vehicles in the period was £17.0 million (2018: £21.7 million). This expenditure enabled business growth and replacement of vehicles that have reached or exceeded their five year useful life.

Ocado continued to develop its own proprietary software and incurred £71.4 million (2018: £54.8 million) of internal development costs in the period on technology, including £13.9 million (2018: £10.6 million) spent on computer hardware and software. We expanded our Technology total headcount to over 1,700 staff at the end of the period (2018: over 1,300 staff) as increased investments were made to support our strategic initiatives. The main areas of investment were replatforming of our technology and the greater use of public and private cloud services, improvements in the efficiency of our routing systems, enhancements to our customer proposition, and support for the Erith CFC and existing partners future CFCs.

Fulfilment development expenditure of £33.3 million was spent in enhancing our next generation fulfilment solutions for CFC and delivery operations of all our Solutions partners.

Other capital expenditure of £20.0 million was incurred in the period, mainly in respect of head office growth, investment in our back office systems and the Group's transformation programme.

At 1 December 2019, capital commitments contracted, but not provided for by the Group, amounted to £93.6 million (2018: £69.7 million). We expect capital expenditure in 2020 to be approximately £600 million which mainly comprises the roll out of the OSP solution which will be installed into the new CFCs of our clients both in the UK and internationally, continuing investment in our infrastructure and technology solutions, the implementation of our solution to our international partners, and additional investment in new vehicles to support growth.

Cash flow

Net movement in cash and cash equivalents was £339.8 million, an increase of £79.0 million in 2018 as detailed below:

	FY 2019 £million	FY 2018 £million
EBITDA⁽¹⁾	43.3	59.5
Movement in contract liabilities	79.5	65.5
Other Working capital movement	(29.0)	5.3
Other non-cash items	(5.1)	12.6
Finance costs paid	(30.6)	(14.5)
Insurance proceeds received	73.8	–
Cash settlement of share incentive plan	(80.2)	–
Operating cash flow	51.7	128.4
Capital investment	(259.6)	(170.1)
Proceeds from disposal of 50% share in ORL	558.3	–
Dividend from joint venture	15.6	–
(Decrease)/Increase in net debt ⁽²⁾ /finance obligations	(65.7)	(32.8)
Proceeds from share issues	59.5	333.1
Other investing and financing activities	(20.0)	2.2
Movement in cash and cash equivalents	339.8	260.8

(1) EBITDA⁽²⁾ is stated before the impact of exceptional items⁽²⁾

Operating cash flow reduced by £76.7 million to £51.7 million during the year.

Cash received during the year in relation to International Solutions partners, excluding VAT, amounted to £79.5 million (2018: £65.5 million).

Other working capital was reduced by £29.0 million. This included an increase of £29.4 million in trade receivables due to timing delays for a tax receipt and in issuing supplier invoices for promotional income and an increase of £8.0 million in trade payables in line with business growth. The reported movement in inventory is an increase of £7.6 million as the reductions from the loss of inventory at Andover CFC and inventory connected to the disposal of Fabled are accounted for elsewhere in the cashflow.

⁽²⁾ See Alternative Performance Measures on pages 227 and 228.



Insurance proceeds of £73.8 million were received in the period in connection with the claim for the fire at Andover CFC. During the period a long term share incentive scheme was settled in cash at a cost of £80.2 million.

In 2019 there was cash expenditure of £259.6 million on new assets as the Group continues to invest for future growth comprising investments in new CFCs, development of our next generation fulfilment solutions, and spend on new vehicles and spoke sites. Other investing activities of £20.0 million included the purchase of equity investments in several companies in the vertical farming and technology sectors.

Net financing cash flows in the period was an inflow of £552.1 million. This included £558.3 million from the proceeds from the disposal of the 50% share of Ocado Retail, £59.5 million of proceeds from the issue of shares, the redemption of £25.0 million of the outstanding Senior Secured Notes and £38.7 million of repayment of other lease liabilities including the lease element of rentals under IFRS16.

Balance sheet

The Group had cash and cash equivalents of £750.6 million at the end of the financial year versus £410.8 million as at 2 December 2018. Gross debt at the period end was £608.2 million (2018: £360.6 million), and includes an adjustment of £279.0 million in respect of IFRS16. Net cash is £142.4 million (2018: £50.2 million).

Trade and Other Receivables includes £61.9 million (2018: £49.1 million) of amounts due from suppliers in respect of commercial and media income. Of this amount £43.1 million (2018: £29.9 million) is within trade receivables, and £18.8 million (2018: £19.2 million) within accrued income.

Trade and Other Payables includes a deferred income provision of £71.3 million in respect of the insurance monies which have not yet been recognised as exceptional income. Within Contract liabilities, £191.8 million (2018: £115.2 million) of amounts are related to Solution contracts, payments made for performance-based payments or progress payments on ongoing service delivery. Where payments are greater than the revenue recognised at the end of period, a contract liability is recognised for the difference. Within accrued income, £1.1 million (2018: £3.8 million) is due from our Solutions customers.

An insurance reimbursement asset and an equal provision of £49.2 million has been recognised on the balance sheet for the obligation to restore the original asset at the Andover CFC site under the leasehold agreement.

Included within property, plant and equipment is capital work-in-progress for land and buildings of £0.1 million (2018: £0.1 million) and capital work-in-progress for fixtures, fittings, plant and machinery of £115.1 million (2018: £45.8 million), the increase relating to the numerous UK and international CFCs, with Casino and Sobeys being the majority.

Increasing financing flexibility

In the period, we received £562.5 million from the sale of 50% of the Ocado Retail business to M&S, with a further amount of contingent consideration due to the business in the coming years. This provides the flexibility to take full advantage of the opportunities to grow Ocado Solutions and accelerate development in our platform for both UK and international partners. The £100 million Revolving Credit Facility ("RCF") which was renegotiated in 2017 was not drawn during the year.

Post year end, the Group issued senior unsecured convertible bonds of £600 million with a coupon of 0.875% due in 2025. This allows the Group to diversify its funding sources and capitalise on issuance conditions, securing financial flexibility to support growth opportunities.

Key performance indicators

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

	FY 2019	FY 2018	Variance
Active customers ⁽¹⁾ (000's)	795	721	10.3%
Mature CFC efficiency (units per hour) ⁽²⁾	168	164	1.8%
Average deliveries per van per week (DPV/week)	196	194	1.0%

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

(1) Customers are classified as active if they have shopped on ocado.com within the previous 12 weeks

(2) Measured as units dispatched from the CFC per variable hour worked by Hatfield CFC and Dordon CFC operational personnel. We consider the mature CFCs to be Hatfield and Dordon

④ See Alternative Performance Measures on pages 227 and 228.



How We Manage Our Risks

The Risk Management Framework

Ocado's risk management process is designed to improve the likelihood of delivering our business objectives, protect the interests of our key stakeholders, enhance the quality of our decision-making, and assist in the safeguarding of our people and assets, including finances, property and reputation.

The Board is responsible for the review and approval of the risk management framework and for the identification of Ocado's key strategic and emerging risks. The Audit Committee, delegated by the Board, is responsible for the review of the effectiveness of risk management, the system of internal control, and the monitoring of the quality of financial statements and consideration of any findings reported by the auditor, Deloitte LLP, in relation to Ocado's control environment and its financial reporting procedures. The review covers all significant controls including financial, operational, compliance controls, and risk management systems.

The key features of our system of internal control and risk management, including those relating to the financial reporting process, are:

- an organisational structure with clear segregation of duties, control and authority, and a framework of policies covering all key areas;
- a system of financial reporting, business planning and forecasting processes;
- a capital approval process that controls Ocado's capital expenditure and a post-completion review process for significant projects;
- monitoring the progress of major projects by management, the Executive Directors and the Board;
- an executive Risk Committee and a Governance, Risk and Compliance team which monitor Ocado's risks;
- an Information Security Committee and an Information Security team which monitor the security of Ocado's IT systems;
- a Personal Data Steering Committee and Data Protection team that support data privacy governance;
- an Internal Audit function that provides independent assurance on key programmes and controls;
- a treasury policy overseen by a Treasury Committee that manages Ocado's cash and deposits, investments, foreign exchange and interest rates exposure, so as to ensure liquidity and minimise financial risk;
- food and product technical departments, responsible for designing and monitoring compliance with Ocado's processes for the handling of foods and other goods for resale; and
- other control measures outlined elsewhere in this Annual Report including legal and regulatory compliance and health and safety compliance.

The Audit Committee reviewed the effectiveness of the Group's risk management and internal control during the period.

→ Further details of the review are set out in the Audit Committee report on page 92 to 97

The Ocado risk management process is designed to identify key risks and to provide assurance that these risks are understood and managed in line with the agreed risk appetite. The risk appetite is reviewed by the Board as part of its annual strategy review. The risk management process is aligned to our strategy and each principal risk and uncertainty is considered in the context of how it relates to the achievement of the Group's strategic objectives.

The Risk Committee reviews an overall risk report twice a year and this is in turn discussed by the Audit Committee and the Board. The risk report captures the most significant risks faced by the business and identifies the potential impact and likelihood at both an inherent level (before consideration of mitigating controls) and a residual level (after consideration of mitigating controls). The appetite for each key risk is also discussed and assessed with a target risk position agreed to reflect the level of risk that the business is willing to accept. This process for identifying, evaluating and managing the principal risks faced by the Group operated during the period and up to the date of this Annual Report. Such a system can only provide reasonable, and not absolute, assurance, as it is designed to manage rather than eliminate the risk of failure to achieve business objectives.

Principal Risks

The principal and emerging risks are discussed and monitored throughout the year to identify changes to the risk landscape. The Board carried out its assessment of principal risks and uncertainties towards the end of the period, including assessing the impact of the Ocado Retail joint venture. Set out overleaf are details of the principal risks and uncertainties for the Group and the key mitigating activities used to address them. The changes to the Group's principal risks reflect the shift in the strategic focus of the business towards the Ocado Solutions platform. The risks have been listed against the most relevant Group strategic objectives and are not set out in any order of priority or importance. The inherent (or pre-mitigation) risk movement from prior year for each principal risk and uncertainty has been assessed and is presented (per the key on page 50). For further information on the financial risks, see pages 192 to 193 of the notes to the financial statements.

Brexit impact on the Group

The Group is continuing to closely monitor the legal and political developments in the process of the UK's exit from the EU ("Brexit"). A Brexit readiness committee was established in 2018, to prepare the Group for the post-Brexit economic arrangements and has been progressing the readiness alongside the ongoing Brexit developments, extensions and now the transition. The absence of an agreed and binding post-Brexit trade arrangement with the EU means that Brexit remains a principal risk for the Group.

The Group has considered the impact in a number of areas:

Employees

- The Group has a dedicated and talented workforce, a substantial number of whom are EEA nationals in many different business areas. The ability of these employees to continue to live and work in the UK is of critical importance, although the UK Settled Status Scheme has substantially mitigated that risk. Applicable employees have been encouraged to take advantage of that scheme.
- Our technology division has several software development centres in the EU that work closely with their UK based colleagues. The efficiency of this arrangement could be impacted if post-Brexit there are restrictions on the ability of UK and EEA nationals to travel and to relocate between the UK and EU.

Supply Chain

- The UK imports about 30% of its food from the EU and the Group does not differ significantly from this average. Our supply chains have been developed as part of this established system, allowing for wide product choice, short ordering times and low inventories. If import tariffs are introduced, cost prices will increase and, if border checks cause disruption, certain short-life products could be unavailable or delisted. Product ranges/variety may contract as a result. Although the Group has created buffers of certain critical ambient and frozen products in the past, it is not possible to do this for fresh and short-life perishables.
- Ocado Solutions exports UK-produced technology and equipment to our partners in the EU. Any tariffs, divergence in standards or other trade barriers may reduce our competitiveness. A technology contingency, comprising OSP hardware, such as bots, will be moved to the EU in anticipation of any supply chain disruption if necessary.

Technology

- A significant proportion of the components in the automation, warehouse, delivery and maintenance equipment used in Ocado's

operations are imported from the EU. The Group previously has placed advance orders for spare parts as a buffer against supply disruption.

- The Group is closely involved in a number of EU collaborations in research and development. While the EU funding is important, access to EU-based academic skills, knowledge and collaboration with other corporates is more important. Existing funding is expected to continue and the UK is expected to propose an alternative framework for when EU funding is withdrawn. Our EU-located development centres will provide some opportunities in respect to the EU-based academic institutions.
- Ocado Solutions technology and engineering teams are designing equipment for our UK and international partners. Currently certification by a UK authority is suitable for both the EU and the UK. Additional EU certification will be required if UK certification is no longer recognised or there is a divergence between UK and EU standards.

The Group has engaged with suppliers, partners and external advisers to explore solutions to these risks to its business. Aside from considering the impact of Brexit on its operations and business model, the Board gave consideration to Brexit in the context of reviewing its viability and going concern, as noted below. The Company also considered the impact of Brexit as part of its post Balance Sheet events review process and did not identify any adjusting events.

Emerging Risks

Supply Chain

With the signing of multiple Ocado Solutions deals around the world there are increased pressures placed on Ocado's global supply chain from the increase in volume of materials and technical equipment being procured, compliance with local standards in each country, the logistical challenges of the global reach, to import tariffs and recruitment and training of local experts. The increasing risks associated with supply chain disruption have been recognised as an emerging principal risk.

Ocado Risk Management Process



- Our strategy informs the setting of objectives across the business and is widely communicated.
- Executive Directors evaluate the most significant strategic risks for the Group. In addition, each divisional director or selected department head prepares a risk register for their respective division, identifying and highlighting their significant risks. The Risk Committee oversees risk control processes and risk analysis from each part of the business, and reviews these top down and bottom up representations to ensure that no significant risks have been omitted.
- Divisional directors or department heads identify how they will manage, and accept or mitigate, their significant risks. These actions are then summarised into a description of the Group-wide mitigation process for each risk.
- Group-wide risks and mitigation processes are regularly reviewed by the Risk Committee and by the Audit Committee.



How We Manage Our Risks

Continued

Strategic Objectives	Risks	Mitigation Action/Control	Change During the Year	
	Improving the Proposition	Risk of decline in high service levels in the Retail business especially during the transitional period of change associated with the creation of the Ocado Retail joint venture	<ul style="list-style-type: none"> Weekly monitoring of the key indicators and the underlying driver targets. Continuing initiatives to improve resiliency and operational performance of the Hatfield and Dordon CFCs. Along with the scaling of operations at Erith, these arrangements help reduce the impact of operational problems in CFCs on customer service levels. 	
	Failure to maintain a retail proposition which appeals to a broad customer base and sustains growth rates while managing changes resulting from our new arrangements with M&S	<ul style="list-style-type: none"> Continuation of Low Price Promise basket matching price comparison and competitive pricing. Development of appropriate M&S 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. Planned roll-out of further immediacy sites. 		
	Risk that current Solutions pricing levels may not provide both acceptable returns for our shareholders and attractive long-term cost of ownership for our clients, while delivering a viable fully operational end-to-end customer experience	<ul style="list-style-type: none"> Full review of projected financial impact undertaken before signing any new partnerships. Periodic review of delivery costs and close relationship with our partners provides oversight of project costs. Regular review of IT prioritisation process and rate of software development and regular platform steering meetings. Resources and capabilities will be scaled and reallocated to help meet Ocado Solutions project deadlines. There is an ongoing programme of design improvements for the platform. The amount of capital invested in our platform is carefully controlled and we have the ability to reduce costs by scaling back the speed of future development. 		

Key:

Risk has increased

Risk has decreased

No change

New emerging risk

Strategic Objectives	Risks	Mitigation Action/Control	Change During the Year
 Maximising Efficiency	Risk of the transformation programme failing to deliver a sustainable operational infrastructure able to execute effectively the requirements for multiple Ocado Solutions contracts, simultaneously in many international locations, while providing for sufficient management, technology and engineering capabilities ⁽¹⁾	<ul style="list-style-type: none"> Creation of a Group Transformation team who are supporting the business in the design and implementation of the new operating model which includes people, process and systems. Increased hiring of key skills in the UK and internationally, including greater emphasis on graduate recruitment and training programmes. Standardisation of platform delivery to improve repeatability. 	 The risk has increased during the period with the successful signing of further international deals
	Risk of delays in the generation of additional capacity in the UK	<ul style="list-style-type: none"> Dedicated resources continue to work on modularising technology to enable faster replication and reduced build times. New capacity increasing as Erith (CFC4) ramps up with plans to build CFC5 (Purfleet) and CFC6 (Bristol). CFC3 (Andover) is being rebuilt. Regular steering meetings and management oversight for new CFC projects. 	
 Utilising Knowledge	Technological innovation supersedes our own and offers improved methods of food distribution to consumers	<ul style="list-style-type: none"> Establishing our identity as a technology business, international platform provider and innovation factory. Engagement with a wide number of international grocers to understand market needs. Experienced teams in place who understand the current solutions and are aware of global alternatives used in other industries. 	
	Risk of infringing a third party's IP or failing to protect Ocado's own IP ⁽²⁾	<ul style="list-style-type: none"> Conducting "freedom to operate" searches on selected technologies in selected jurisdictions and monitoring IP filings by a large number of companies. Where appropriate, obtaining specialist or legal advice including to help ensure our ability to use our IP is not restricted by infringement claims. Ongoing effort to identify patentable inventions and to apply for patents, with an increased number of patent applications. Expansion of IP team to help with IP protection work. Ongoing review of our patent portfolio and discussion of other IP issues by the Ocado Innovation Committee. Where necessary we take steps to protect our IP from unauthorised use. 	



How We Manage Our Risks

Continued

Strategic Objectives	Risks	Mitigation Action/Control	Change During the Year
 Operational	Risk of supply chain disruption, in particular for single source equipment, that adversely affects product availability, delivery, reliability and cost, resulting in delays to contractual commitments and loss of revenue ⁽³⁾	<ul style="list-style-type: none"> Setting up of a “Central Manufacturing Fund” governed by Supply Chain with a view to ensuring reliable supply of components. Agile approach to manufactured products including the ability to divert any product to sites with the most pressing requirements. 	
	Risk of a food safety, product safety or health & safety incident ⁽⁴⁾	<ul style="list-style-type: none"> Experienced legal, food and product technology professionals and health and safety experts monitor compliance against policies and procedures. Supplier approval and certification process. Food and product safety policies and quality management with operational procedures. Risk assessments and safe systems of work prepared by qualified staff to raise awareness and knowledge. Active monitoring of international regulatory changes supported by territory expertise and recognised safety management system standards. 	
	Risk of changes in regulations impacting our business model or the viability of Ocado Solutions’ deals	<ul style="list-style-type: none"> Regular monitoring of regulatory developments to ensure that changes are identified. Due diligence carried out at appropriate stages in the Ocado Solutions process. 	
	Risk of negative implications due to changes in the global economic and geopolitical environment, including Brexit and the associated tariffs or difficulty in hiring employees, that may impact our business model ⁽⁵⁾	<ul style="list-style-type: none"> Engagement with regulators and monitoring by management and specialist teams of the global and economic environment and regulatory changes to assess the potential impacts on hiring employees, trading, operations or the business model. 	
	Failure to prevent or respond to a major cyber attack or data breach that could result in business disruption, reputational damage, significant fines or the loss of customer, employee or confidential business information	<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. An information security and PCI security governance programme overseen by the Information Security Committee. A dedicated Information Security team to monitor for security issues and respond to security incidents. No customer payment card data is held in Ocado’s databases. Data Protection Officer oversees the Group’s privacy compliance programme. 	
	Risk of business interruption	<ul style="list-style-type: none"> IT systems are structured to operate reliably and securely. Dedicated engineering teams on site with daily maintenance programmes to support the continued operation of equipment. Ongoing testing and research and development to make equipment and MHE more reliable and robust. 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. 	

(1) The risk covering the execution of multiple international contracts and the requirement for resources has been amended to reflect the importance of the transformation programme.

(2) The risks described in the 2018 annual report as “Risk of infringing a third party’s IP” and “Risk of failing to protect Ocado’s own IP” have been combined.

(3) A new risk covering supply chain disruption has been added to reflect the increased significance of the Ocado Solutions programme.

(4) The risk described in the 2018 annual report as “Risk of a food safety or product safety incident” has been expanded to include health & safety incidents.

(5) The risk described in the 2018 annual report as “Risk of negative implications caused by final Brexit terms such as increase in import costs or difficulty in hiring employees” has been expanded to reflect the global economic and geopolitical environment resulting from Ocado’s increased international reach.

Assessment of the Group's Prospects

The Directors have assessed the Group's prospects, both as a going concern and its viability longer term. This assessment informs the following distinct statements:

- (1) The Directors considered it appropriate to adopt the going concern basis of accounting in the preparation of the Company's and Group's financial statements.
- (2) The Directors have a reasonable expectation that the Company and the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment.

Both assessments are closely linked to the Directors' robust assessment of the principal risks facing the Group (including those that would threaten its business model, future performance, solvency or liquidity), which is outlined on pages 50 to 52.

Going Concern Statement

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 Group's ability to continue using the going concern basis of accounting for the 12 months following the approval of this Annual Report.

In assessing going concern, the Directors take into account the Group's cash flows, solvency and liquidity positions and borrowing facilities. The Group had cash and cash equivalents of £750.6 million, external gross debt (excluding finance leases payable to MHE JVCo) of £540.1 million and net current assets of £549.9 million. The Group has a mix of short and medium term finance arrangements. The Group forecasts its liquidity requirements, working capital position and the maintenance of sufficient headroom against the financial covenants in its borrowing facilities (see below). The financial position of the Group, including information on cash flow, can be found in the section on pages 142 to 221. In determining whether there are material uncertainties, the Directors consider the Group's business activities, together with factors that are likely to affect its future development and position (see the section on pages 12-47) and the Group's principal risks and the likely effectiveness of any mitigating actions and controls available to the Directors (see pages 48-52).

Viability Statement

In addition to the going concern assessment, the Directors have considered the viability of the business.

The Directors have decided that three years was the most appropriate period for assessing the Group's prospects. Although the Group's strategic plan forecasts up to five years ahead, the Directors also took into account the impact on forecast outcomes of the rapid growth of the business and its changing strategic opportunities (among other factors) as evidenced by developments in each of the last three years. The directors also took account of the typical three years between a client contracting for a new CFC and its opening with the result that financial commitments were made on this timeframe. This assessment is unchanged by the sale of a 50% share in the Retail business which remains a subsidiary but operates as a stand alone business unit and the Group's continued expansion into overseas markets during 2019 as the underlying nature of the business is similar in terms of the planning timeframes.

The Directors then considered whether the Group will be able to continue in operation and meet its liabilities as they fall due over the three year period from approval of this Annual Report.

The Directors rely on a number of existing processes to consider their viability assessment. The annual budget, which provides a greater level of certainty of outcome than the longer-term plans, is used to set budget targets for the Group and is used by the Remuneration Committee to set targets for the annual incentive plan. A longer term business model provides less certainty of outcome, but provides a sensible planning tool against which strategic decisions can be made. This plan contemplates the input of a number of different strategic initiatives, including possible Ocado Solutions transactions, possible trials of new technology and potential increases in CFC capacity. The plans make assumptions about the business including projected capital expenditure, financing requirements, available finance and compliance with any financial covenants. In the third year of the viability assessment the Directors anticipate that additional funding will be required to continue to drive the expected expansion of the Ocado Solutions business and the Directors are confident that, given the future projections in term of performance and financial position, this funding will be secured.

To assist the Directors' assessment, the financial projections in the longer term business model were subject to severe but plausible stress tests whereby certain key assumptions were adjusted downwards, as follows:

- (i) material decline in the expected profitability of Ocado Retail;
- (ii) delays in the opening of international CFCs; and
- (iii) significantly higher than expected engineering and technology operating costs for future CFCs.

A decline in the expected profitability of the UK Retail business may be the result of lower sales growth or reduced margins and can result from a range of principal risks in the Retail business including failure by the Group to maintain a competitive pricing position, a decline in customer service levels and a delay in implementing new capacity (see pages 50-52). A change to the expected operating costs of international CFCs is a potential scenario arising from other principal risks such as not having sufficient technology and engineering resources to continue making improvements or not delivering the expected reductions to long term cost of ownership of the OSP solution. The Directors' assessment also took into account the other principal risks that could have an impact on the future performance of the Group and those that would threaten its business model, solvency or liquidity and also the likely effectiveness of any proposed mitigating actions (see pages 48 to 52).

The three stress tests were evaluated to show various outcomes including the impact on the Group's net debt and cash flow over the three years and an assessment on the impact on the financial covenants in the revolving credit facility, all of which are relevant to assessing the solvency and liquidity of the Group.

The above considerations form the basis of the Board's reasonable expectations that the Group will be able to continue in operation and meet its liabilities as they fall due over the three year period from approval of this Annual Report.

For information concerning the review of going concern and viability see the Audit Committee report (on pages 92 to 97). The external auditors have reviewed these statements and having nothing to report (see the Independent Auditors' report on pages 142 to 150).

Corporate Responsibility

In 2019 we continued making excellent progress towards all four pillars of our Corporate Responsibility strategy: The Ocado Way.

The Environment was our major focus in 2019 – plastics usage, reducing food waste and food poverty, and improving on carbon. Our commitment and actions to the Sustainable Development Goals have also seen us make progress towards publicly committed global actions with some very real achievements which we're proud of.

Highlights for each of our corporate responsibility strategy pillars are featured below.

The Ocado Way: 2020 Strategy



Education



Entrepreneurship



Environment



Eating Well



WE ARE MEMBERS OF:

Better Retail, Better World

We are founding signatories to the British Retail Consortium's "Better Retail, Better World", a collective action from the retail industry to meet some of the biggest global challenges. These include modern slavery and decent work, sustainable economic growth, climate change, responsible consumption and production and inequalities.

Courtauld 2025

We are signatories to Courtauld 2025, a commitment to identify priorities, develop solutions and implement changes to cut the carbon, water and waste associated with food and drink by at least one-fifth in ten years. Working alongside other members of the food system to make food and drink production and consumption more sustainable.

UK Plastics Pact

We are a founding signatory of the UK Plastics Pact, an industry-leading initiative backed by WRAP and the UK Government to tackle plastic as pollution, and create an environment where plastic never becomes waste. Its three main aims are to make all product packaging reusable, recyclable or compostable; eliminating problematic or unnecessary single-use plastic; and having a 30% average recycled content across all plastic packaging by 2025.

Stronger Together

In 2019 we became a project sponsor of Stronger Together, a multi-stakeholder business-led initiative aiming to reduce modern slavery and other hidden third party exploitation of workers. They provide guidance, training, resources and a network for employers, labour providers, workers and their representatives to work together, to tackle a common goal.



Education

During 2019 we continued promoting education projects, including digital literacy and road safety.

Digital Literacy

We are on a mission to empower teaching of computing in schools, preparing the next generation for a tech-first world and making Science, Technology, Engineering, Mathematics (STEM) subjects more appealing to a wider audience. We understand the challenges facing today's teachers, many of whom lack the resources needed to teach computer science.

Code for Life

We are preparing the next generation for the jobs of the future. Code for Life, our non-profit initiative that delivers free, open source games and teaching resources; helping all students to learn or improve their computing skills. We've continued to expand Rapid Router, our resource for teaching Key Stage 1 and 2 children how to code. At the end of November 2019, there were over 237,000 registered users globally and more than 5,300 schools have incorporated Rapid Router into their computing curriculum.

This year we developed Kurono, a time travelling adventure game for ages 13 and up. It will support secondary school Key Stage 3 and 4 pupils interested in learning Python, a popular coding language in today's digital workplace.

Road Safety

Delivering road safety projects to primary and secondary school children remained a priority during 2019. We repeated the "Road Safety Challenge", a successful programme we run in partnership with Warwickshire County Council. This commitment gave 80 schools the chance to win £500, to spend on road safety equipment or initiatives. The project reached 14,900 primary and secondary children in the county.

In autumn 2019, we published a third special edition of The Young Driver's Guide in partnership with First Car Limited. This magazine continues to help educate new drivers about road hazards and how to reduce risk. Over 31,000 copies were delivered to 158 schools and campuses in the counties of Warwickshire and Hertfordshire.



Entrepreneurship

Entrepreneurial thinking continues to be at the heart of Ocado, and 2019 saw our successful "Supply Ocado" portal continue to grow with new businesses.

Supporting SMEs

In FY 2019, 1,015 submissions were made through the Supply Ocado portal, a 36% increase from FY 2018.

Our buying team also hosted four "Meet the Buyer Days" at our Head Office. During these days, SME suppliers are invited to pitch their products to our buyers who in turn provide advice and guidance on all elements of their proposition as well as talking them through the process of listing their products on Ocado.com. A collective total of 227 suppliers attended one of our "Meet the Buyer Days" in FY 2019.



Environment

Carrier Bags

During the period, we collected over 156 million bags for recycling through incentivising customers to return them through our Bag Buy Back scheme. The Ocado Foundation continued to be custodians of the remaining 5p bag funds; supporting waste, recycling and education projects across the UK.

We donated a further £20,000 to CleanUpUK, a charity helping people to combat litter in their community. We continued to support our Food Partners by funding an additional five refrigerated vans, making that 13 "Cool Vans" donated to date. These vans are bringing community outreach programmes to life, transporting fresh surplus food to struggling communities and bringing people together. One of our food bank partners has built a network supporting over 200 charities, schools and community groups using the vehicles we have provided.

Waste

We believe Ocado has the lowest food wastage in the industry. In 2019 just 0.038% of food items in our CFCs were wasted. We're committed to ensuring no food goes to landfill; inedible food is sent to anaerobic digestion, and edible food is redistributed. In the reporting year 1,148 tonnes of food surplus was redistributed through our partnership with Company Shop, and their social enterprise, Community Shop.

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



Corporate Responsibility

Continued

Greenhouse Gas Emissions

Our relationship with Ecometrica continued for the fourth year, providing a centralised data management system. We track carbon emissions from our CFCs, spokes and vehicles.

This year we have invested in Compressed Natural Gas (“CNG”) trucks, increased our usage of electricity from zero carbon sources and have begun trials for electric vans in high density areas. Compared to 2017/18 there has been a 3.03% reduction in our location based scope 1 and 2 total carbon emissions. Our location based intensity based measure of tCO₂e per 100,000 orders has also decreased from our 2012/13 base line by 37.59%. We expect the trend of our intensity based measure reduction to continue, however we do expect our absolute emissions to increase in future years as our operations continue to grow. The majority of our emissions continue to derive from our fleet, accounting for 70%, followed by our electricity at 21%.

For the third year running we partnered with the Carbon Trust who have carried out a limited assurance engagement on selected GHG emissions data (table below) in accordance with ISO 14064:3.

GHG Emissions

GHG Emissions (tonnes CO ₂ e)	2018/19	2017/18	2012/13
Scope 1 – Direct	86,502	87,614	39,530
Scope 2 – Indirect			
Location-based	22,811	25,115	21,613
Market-based	814	8,872*	n/a
Total Emissions (Location-based)	109,313	112,729	61,143
Intensity Measure (Tonnes of CO₂e/100,000 orders)			
Location-based	514	550.1	823.4
Market-based	411	470.8	n/a

* Since the publication of our 2017/18 results, some market-based figures have been updated thanks to improved accounting, which has resulted in a marginal change in figures. The previous figure was 8,856 tCO₂e.

Please see the Ocad Carbon Trust Certification Ltd Assurance Statement 2019 on the Corporate Website, www.ocadogroup.com, and for methodology see page 136.

We have participated in CDP’s Climate Change Disclosure submission for the third consecutive year. We are delighted to have maintained our score of a B for the second year running.

2019	B	
2018	B	
2017	C	



Eating Well

We’ve continued to focus on reducing food poverty in the UK and encouraging healthy eating, growing our partnerships with food banks, charities, schools and community groups.

For the second year we encouraged children to think creatively and get excited about vegetables, again sponsoring the Young Pea Chef of the Year. This nationwide competition challenged school children at both primary and secondary level to invent a recipe using peas. Over 200 children entered the competition and over 2,500 people voted to choose the winning three entries.

Responsible Sourcing

We are committed to acting ethically and with integrity in all our business relationships and to implementing effective systems and controls to ensure human rights abuses are not taking place anywhere in our own business or in any of our supply chains. We are also committed to ensuring there is transparency in our own business and in our approach to tackling modern slavery, consistent with our disclosure under the Modern Slavery Act 2015.

→ Our full modern slavery statement can be found on www.ocadogroup.com.



We are members of Sedex and use the platform to monitor our own-brand suppliers on their performance around labour rights and health & safety. In 2019, 73 social audits were conducted at first tier supplier sites, making 94% (2018: 90%) compliant with our ethical trading requirements at year end. The remaining sites had booked or were working towards an ethical audit between late 2019 and early 2020.



We supported Stronger Together to develop a pragmatic toolkit for the Spanish horticultural industry, a key sourcing region for our products. This

toolkit will support Spanish businesses to deter, detect and deal with forced labour and other third-party hidden labour exploitation. It has been tailored to the Spanish labour laws, risk context and business models. It is free to download from stronger2gether.org.



In 2019 we joined Food Network for Ethical Trade (FNET), a supplier-led initiative aiming to use the collective leverage of suppliers and retailers to bring about positive change in working conditions in global food supply chains by providing guidance, resources, training and opportunities for collaboration.

Alongside a number of UK retailers, we took part in FNET's Retailer Ethical Auditing Practices survey, designed to increase understanding of where suppliers would like retailers to prioritise their efforts in relieving audit duplication and reducing conflicting requirements. Surveying over 200 retail suppliers, including 52 of Ocado Retail, findings were reported anonymously to highlight the key difference areas that create challenges for suppliers and to discover opportunities for improvement.



The Ocado Foundation

The Ocado Foundation is the home of our charitable and fundraising activity, both internally and externally. We support employees across the UK to make a difference to a local charity that matters to them. We do this through donations to multiple small, local projects and charities where impact will be greatest, rather than supporting a single national charity. Matching our employees' fundraising and volunteering activity resulted in:

- Over £55,000 for charities and community organisations
- 3,200 volunteer hours
- Over 500 donations made to charities and schools

Going the Extra Mile

In 2019 the Ocado Foundation supported the tenth anniversary of "Poppy Cabs". Started by registered taxi drivers, the initiative offers free travel for veterans attending the Remembrance Sunday Service in London.

Since its inception in 2009, it has become an integral part of the annual service and saw London cabbies make over 1000 free taxi journeys during November. It has increased accessibility for veterans attending the event, especially for those using wheelchairs.



CASE STUDY

Marine Conservation Society

The Great British Beach Clean has been leading the way in tackling ocean pollution for 25 years, helping make some of the most significant impacts on beach litter ever.

"It was so great to partner with The Ocado Foundation for this year's Great British Beach Clean. Thousands of pieces of litter were collected, preventing them from ending up in the ocean and endangering marine wildlife."

Anne Thwaites

MCS Corporate Partnerships Manager



In 2019, the Ocado Foundation partnered with the Marine Conservation Society (MCS) to support its 2019 beach clean campaign, removing litter that would otherwise end up in our oceans, endangering marine wildlife.

The MCS's Great British Beach Clean not only aims to help clear beaches across the UK of litter, but also asks volunteers to collect valuable data which has helped to drive change and reduce marine pollution on a national and international level. Fifty-five volunteers from the Ocado Foundation joined MCS to clear and survey the litter on Southend-on-Sea beach.



Engaging With Our Stakeholders



S172 COMPANIES ACT 2006

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

Engagement with our shareholders and wider stakeholder groups plays a vital role throughout the business.

Having conducted an externally facilitated stakeholder analysis session during the period, we set out in the following table our key

stakeholder groups, their material issues and how the Company and the Board engage with them. Each stakeholder group requires a tailored engagement approach to foster effective and mutually beneficial relationships.

By understanding our stakeholders, we can factor into boardroom discussions the potential impact of our decisions on each stakeholder group and consider their needs and concerns.

Stakeholder	Their interests	How we engage	How the Board engages
OUR PEOPLE	<ul style="list-style-type: none"> Training, development and prospects Health and safety and working conditions Diversity and inclusion Human rights and modern slavery Fair pay, benefits and share plans 	<ul style="list-style-type: none"> Ocado Council Intranet; all-staff emails and newsletter-style updates Workforce posters and communications Whistleblowing services Employee questionnaire Reward team Well-being forums 	<ul style="list-style-type: none"> DNED and Executive Directors attend Ocado Council and engage in Q&A sessions Board receives periodic reports on a range of people matters
SOLUTIONS PARTNERS	<ul style="list-style-type: none"> Innovation, research and development Technology Ocado's reputation Supply chain Governance Logistics Service 	<ul style="list-style-type: none"> Initial meetings and negotiations Senior management engagement with client senior management Programme management steering sessions 	<ul style="list-style-type: none"> Executive Director attends regular senior client meetings
SUPPLIERS: OCADO SOLUTIONS	<ul style="list-style-type: none"> Performance Capability Success of the business Fair trading Payment terms Collaboration Anti-bribery and corruption Anti-slavery Ethical behaviour Long-term partnerships Terms and conditions 	<ul style="list-style-type: none"> Initial meetings and negotiations KPIs and feedback Corporate responsibility and ethics reporting Collaborative working groups Direct engagement with senior management 	<ul style="list-style-type: none"> Board approval on significant orders Executive Director engagement with senior executives of suppliers
CUSTOMERS: RETAIL	<ul style="list-style-type: none"> Range and product availability Price and pricing consistency Timeliness Ease of website Service Product provenance and animal welfare Sustainability and environmental impact Safety Supply chain, specifically workers' rights Supplier engagement and management, preventing modern slavery 	<ul style="list-style-type: none"> Customer surveys Customer complaints Contact centre Press engagement Company reports Industry events Corporate Website Direct marketing and communications 	<ul style="list-style-type: none"> Annual Report Corporate Responsibility Reports AGM Board updates on trading and customer initiatives Corporate Website



Stakeholder	Their interests	How we engage	How the Board engages
SUPPLIERS: RETAIL	<ul style="list-style-type: none"> Success of the business Fair trading Terms and conditions Brand building and performance Anti-bribery and corruption Ethics Human rights and modern slavery Long-term partnerships Payment terms Responsible sourcing requirements Audits GSCOP compliance 	<ul style="list-style-type: none"> Direct engagement Supplier website Meet the buyer days Supplier conferences Social audits Supplier surveys Collaborative working groups 	<ul style="list-style-type: none"> Board breakfast meetings Regular reporting on retail performance, GSCOP and modern slavery
INVESTORS	<ul style="list-style-type: none"> Comprehensive view of financial and sustainable performance of the business Share price Environment, Social and Governance (ESG) factors 	<ul style="list-style-type: none"> Regular meetings, calls and site visits with investor relations and management Annual Report Corporate Website Shareholder circulars Notice of AGM/GM Stock Exchange announcements Press releases 	<ul style="list-style-type: none"> Results meetings Communication with the Senior Independent Director Regular reports on investor and analyst feedback GSCOP report to Board
REGULATORY BODIES	<ul style="list-style-type: none"> Compliance with regulations GSCOP Worker Pay and conditions Waste and environment Automation, engineering and technical compliance Gender Pay Brand reputation Consumer protection Legal trading Health and safety Food and product safety Treatment of suppliers 	<ul style="list-style-type: none"> Corporate Website Stock Exchange announcements Annual Report Direct engagements with regulators British Retail Consortium meetings Response to required reports 	<ul style="list-style-type: none"> Regular reports from business on range of regulatory issues and engagement
CHARITIES, NGOs AND THE LOCAL COMMUNITY	<ul style="list-style-type: none"> Sustainability Food security Road safety Environment Human Rights Animal welfare Energy usage Recycling Waste management Packaging material Emissions from company vehicles Community 	<ul style="list-style-type: none"> Direct engagement locally with MPs, councils and community groups and nationally with MPs, ministers and trade associations British Retail Consortium joint statements Corporate Responsibility Report Corporate Website Philanthropy and employee-matched funding for charity policy 	<ul style="list-style-type: none"> Oversight of corporate responsibility plans and reporting Involvement in corporate affairs strategy and activities



Our People

Building a Workforce for the Future

Ocado Group's current and future success is dependent on our employees – people who innovate, find solutions and deliver world-class service. We are committed to attracting, developing and retaining the highest quality talent throughout Ocado Group, whilst the continuous growth of the business means expanding our workforce in the UK and globally.

This shift in focus to delivering to our international business customers has enabled the alignment of other key delivery areas within our organisation. This transformation of ourselves began with creating the Ocado Retail joint venture and continues with a reorganisation of our internal operating model.

Our logistics services now exist to provide warehousing, logistics and distribution services to UK retail businesses – both our Ocado Retail joint venture and our Solutions partner Morrisons. Whilst our Solutions business, both UK and international, focus on the creation of Ocado's solutions technology and the implementation of clients' CFCs and fulfilment solutions around the world.

Ensuring we have the right people with the right skills means our focus on growing and developing our people is a key message that Ocado uses to attract and retain individuals.

Reward and Retention

We also understand that employee benefits make an important contribution to both employee engagement and the attractiveness of Ocado as a place to work. We are committed to continuing to provide a competitive compensation package inclusive of salary, pensions and other benefits. Ocado encourages shareholding for its by offering Free Shares at 1% of salary to all employees, annually.

We also offer both an employee Share Incentive Plan ("SIP") and a Sharesave scheme to all employees. At the end of this financial year, 15% of our employees had participated in our 2016 scheme, with an average profit of £31,940 per employee.

Our UK financial awareness initiative provided by Neyber, has seen significant employee take-up with a total value of £1,469,500 paid out in loans. Other money management tools such as Bike Solutions schemes, car leasing and other healthcare services like our digital GP are also popular; all of which are part of our wider strategy that focuses on mental, physical and financial well-being.

Learning and Development

Supporting the training and development of our workforce is crucial to delivering our mission: changing the way the world shops. The consistently high performance in our UK grocery business provides the shop window for our business-to-business proposition. A stable, well-trained workforce is vital to achieve this, which is why we invest in developing technical skills and also encourage personal development to support future career progression for both monthly and hourly paid employees.

In September 2019 we inducted 50 university graduates under our nine separate training schemes, covering General Management, People, Finance, Engineering, Engineering Operations, Operations Management, Logistics and Technology, cementing our place as a significant employer and creator of new graduate jobs. Use of the Apprenticeship Levy has also increased with the scheme being used to fund many professional qualifications such as CIMA and specialist engineering courses, as well as entry level employees.



This year our Learning and Development offering has increased not only to focus on providing work-related learning but supporting personal well-being too. We've also invested in further personal development through our individual coaching offering and team development as well as through Insights psychometric analysis ("Insights") to create a better and more productive understanding of professional relationships.

The blended learning approach also supports the roll-out of mandatory training such as privacy compliance training that all monthly-paid employees are required to complete – providing a detailed audit trail.

The safety and wellbeing of Ocado's employees and associates is of the utmost importance. The Company's objective is to ensure the safety of all employees in line with Ocado's Health and Safety Policy and to ensure that its activities do not harm the public, customers or employees. Ocado does not tolerate any form of corruption, fraud or criminality, or the giving or receiving of bribes for any purpose. Ocado's Anti-Bribery and Money Laundering Policy sets out definitions of bribery and corruption, and our internal training provides examples of this as well as how to report any cases of suspected wrongdoing.

1 Online Learning Resources

MiLearning has over 600 resources that are available 24/7, including bite-sized learning videos, e-books and tools that employees can use.

2 Group Workshops

We offer open workshops that run regularly. New topic areas are added periodically as learning needs arise. Our offering ranges from presentation skills, coaching, negotiation and people management to working effectively as a team.

3 Team Development

We work with specific teams to support team development, strategic visioning and address any team challenges. We've invested in Insights in the last year as a tool to help us better support this development activity.

4 Apprenticeships

Provide greater opportunity to embed and apply individuals' learning in the workplace by using examples and projects to explore topics. Require time off the job to learn and a personal coach. They range from technical skills such as engineering to wider areas such as leadership and MBAs.

5 Individual Coaching

We have in-house and external coaches who support individuals to work through challenges and work situations. Coaching usually begins with a meeting including the manager and then moves to 1-2-1 meetings between the coach and employee that are goal focused and reflective.

6 Mandatory Training

We provide mandatory training, mostly through e-learning. This includes data privacy, competition law, anti-bribery, right to work, etc. All new starters go through appropriate mandatory training, and regular refresher training is provided to existing employees.

Whistleblowing

This year we launched an independent and confidential whistleblowing service that allows our employees, suppliers and other third parties to raise concerns about possible wrongdoing that would be of public interest. This initiative is referred to internally as Speak Up.

Prior to the launch, external training was provided to all Speak Up investigating managers and all senior People managers. A campaign of awareness, including posters and videos, was implemented for the entire global workforce who are encouraged to make their disclosures either in person to a line manager or using the external independent system hosted by Expolink via either telephone, app or web. Anonymous reports are permitted in relevant countries.

On a quarterly basis the Board, Risk and Audit Committees are updated on all whistleblowing reports and subsequent actions. The introduction of these procedures has provided beneficial insight, supporting the integrity of the operational control environment.

Human Rights and Modern Slavery

Ocado Group recognises its responsibility to respect human rights throughout its operations. We are committed to ensuring that people are treated with dignity and respect by upholding internationally recognised human rights principles encompassed in the Universal Declaration of Human Rights and the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work.

As a business we seek to avoid infringing the human rights of others and work to address any adverse human rights impacts we identify. Ocado Group takes seriously any allegations of human rights abuse in all its forms and will not tolerate human rights abuse anywhere in our operations.

We are committed to building knowledge and awareness and have developed a range of training and awareness initiatives for our employees, suppliers, business partners and service providers. For further information please refer to our most recent Modern Slavery Act Statement.

→ Please see our Modern Slavery Act Statement on the Corporate Website, www.ocadogroup.com

Our People

Continued

Diversity and Inclusion (D&I)

We are committed to ensuring that the Ocado workforce has the diversity of talent and expertise that it needs to enable the business to continue growing and innovating. The metrics required to be reported under the gender pay gap legislation can be found on the Corporate Website, www.ocadogroup.com and the Government's online portal and within this report on page 117. Our equal opportunities policy is dedicated to creating an environment for our employees that is free from discrimination, harassment and victimisation, reflecting our commitment to creating a diverse workforce and environment that supports all individuals irrespective of their gender, age, race, disability, sexual orientation, or religion. We believe that this increases our pool of talent and benefits the organisation.

→ For more information about diversity on our Board, see page 77

This year we gave greater practical effectiveness to the equal opportunities policy by the appointment of our first D&I Manager, tasked with leading our global strategy that "celebrates difference". We will continue our journey to develop a culture, in partnership with colleagues and our Ocado Group leaders, that upholds the benefits of diversity and inclusion as enablers for achieving the organisational aims and objectives upheld by our Values. Our focus for the coming year to support our culture of inclusion will be on these main themes:

Mental Health

We want to establish a support network that nurtures the needs of our employees in helping them take care of their mental health. The network will work both locally and globally, collectively raising awareness and working on supporting structures and initiatives. We'll continue to work with our educational partner Aviva to identify and deliver mental health first aiders (MHFA) courses equipping people with the tools to support others and to help keep themselves mentally fit.

Ethnic Minorities

Our focus will be to support the Black, Asian and minority ethnic communities at Ocado, raising a greater awareness and understanding. There will be a focus in recruitment and selection globally as to how we recruit, who we recruit and who is recruiting.

Disability Confident

Taking guidance from the UK Government's Disability Confident Scheme, we're looking at how disability friendly we are and how confident our disabled colleagues are. This part of the D&I focus will look at growing the support network by answering three questions. How can we encourage disabled people to join Ocado and how can we support them both mentally and physically when they are in the business? How do we, as a global leader in technology, forge our way to the forefront of being an employer of choice for disabled persons?

LGBT+

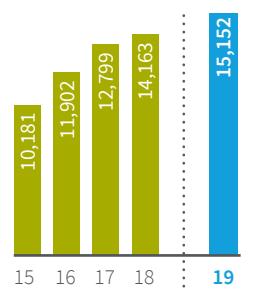
As new but active members of Stonewall, an LGBT+ rights charity, we have already made headway with the LGBT+ initiative in CFCs Dordon and Erith. This will focus on how we can grow this globally and inclusively.

Gender

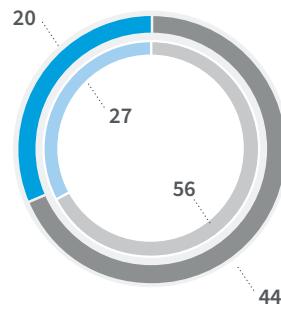
The path to achieving gender equality is very much a focus of Ocado and is well underway with our involvement in the 30% Club campaign group supporting gender diversity and our "Women in Tech" network.

By creating networks for each initiative that are sponsored by our senior leaders and chaired by people with passion, we aim to represent every role and level in our business. Their involvement creates an engaged workforce, providing development and experience and improved employee retention at Ocado.

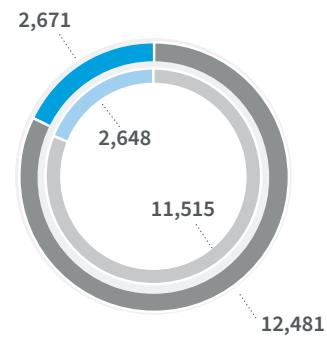
Total Number of Employees



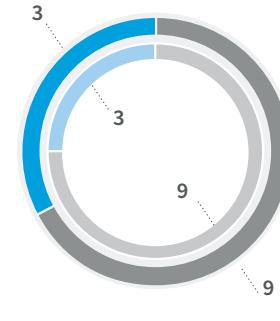
Senior Managers



All Employees by Gender



Directors



2019

Female

Male

2018

Female

Male



Our Values

Our Group People Values and the associated behaviours are at the heart of our Group purpose: "To change the way the world shops".



We...

- ▶ go the extra mile for our customers
- ▶ do the right thing
- ▶ celebrate our successes



We...

- ▶ fight for the common purpose
- ▶ show trust and respect
- ▶ care for each other



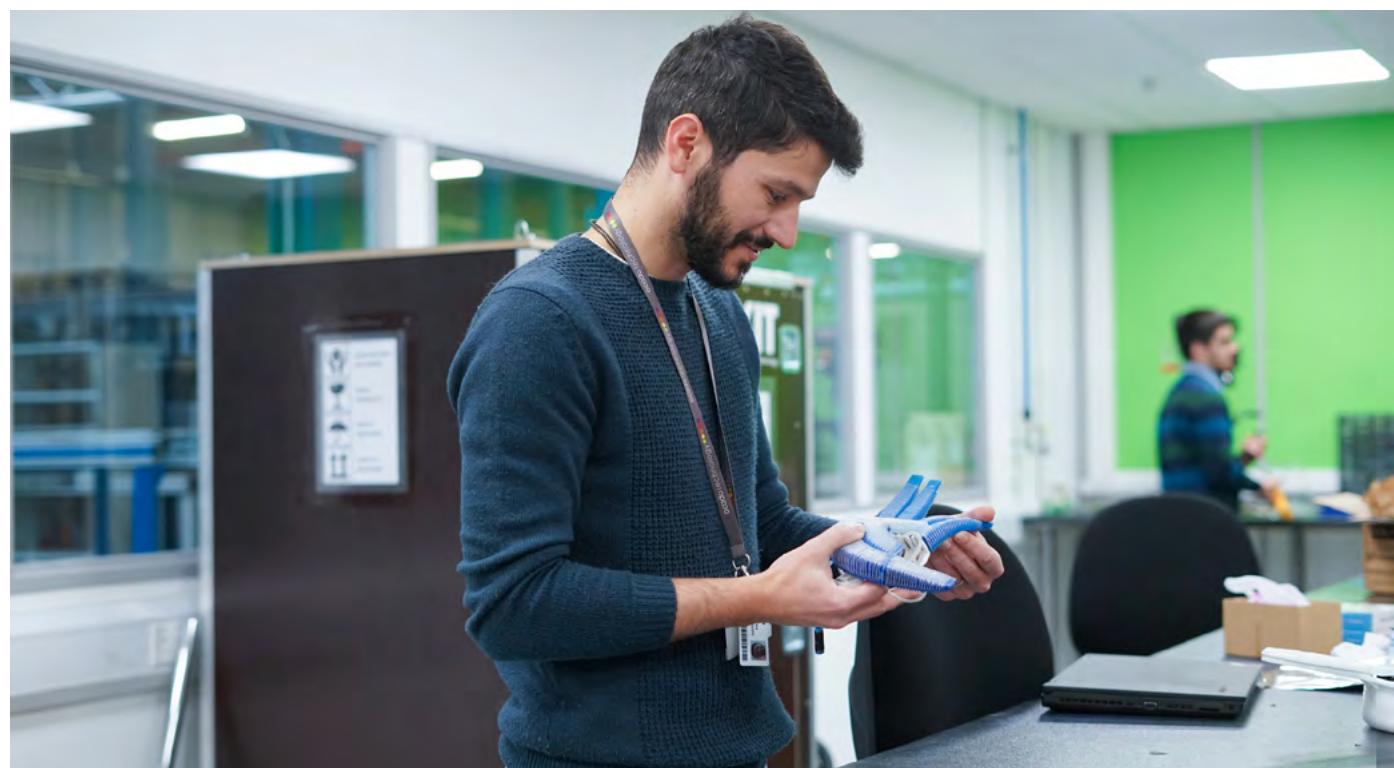
We...

- ▶ never stop improving
- ▶ thrive on change
- ▶ learn from our mistakes

As a start-up 20 years ago Ocado had a highly developed sense of mission. It formed a core part of the culture of the organisation. And it still does. While we develop new missions for the different elements of our global business we have worked hard to maintain the culture that underpins our ways of working to ensure we stay aligned and true to our heritage. These culture principles are fundamental elements of our values, behaviours and career opportunities that are to be used to attract talent into the business. They are all a part of what makes us Ocado.

- **Our values say it all** – Togetherness, pride and being better.
- **You can shape the future with us** – People in Ocado have a sense of mission. Our disruptive technology (where we are proud to disrupt the status quo) is leading the way for grocery retail and more; you can solve problems and gain experience here like nowhere else.
- **You can grow with us** – Shaping the future doesn't just apply to our clients' businesses. With our track record of developing leaders and experts from within, challenging ourselves to disrupt our own business, we can continue to offer unique opportunities to develop your career with us.
- **You will make an impact from the start** – We trust and empower our colleagues. Everyone is encouraged to solve challenges with creative solutions. This is what drives our unique innovation and ambition. Although we are a large company on a global scale⁽¹⁾ we are not formal and approach things nimbly and pragmatically.
- **Difference is driving our business** – Our success is due to the diversity of our people and our ways of thinking. Everybody is welcome to bring their ideas to improve how we do things.

(1) Source: Ocado Culture Principles.



Our People

Continued

The Ocado Way Leadership Behaviours

Crucial to how we embed the Group People Values is our new leadership behaviour programme, which is designed to encourage those key behaviours that we expect all of our employees, but particularly our leaders, to demonstrate.

Designed by our Management Committee colleagues, these develop and support our leaders so that they are the best they can be.

As a leader in Ocado you not only need to live our values and people manager behaviours, but be able to lead large teams and functions to deliver for our business. To do this well in Ocado you need to demonstrate the following behaviours:

Impact and influence

- A visionary communicator who obsesses about the customer, takes ownership and achieves results. Builds effective partnerships and fosters a high performance culture with positivity and respect. Motivates others to perform, manages conflict and nurtures talent.

Drive and intellect

- A decision maker with a sense of urgency. Understands the business, the customer and solves the big problems creatively. Will always put the needs of the business first. Has passion, vision and conviction. Shows agility and resilience in a fast-paced changing environment.

Judgement and integrity

- A considered and commercial risk taker who shows humility and inspires trust. A critical thinker who consistently does the right thing, challenges others and is open to being challenged. Demonstrates strategic judgement and is not afraid to make a tough call.

These leadership behaviours are at the core of our culture. They are used at senior levels of the business to review performance and potential for future roles.

The Citizenship Code

The Ocado Citizenship Code ensures everyone at Ocado understands how we conduct our business, and bring to life the culture which remains so important to us, never more so as we grow and transform our business.

The Citizenship Code was created by examining our business procedures and governance process, pulling all this information together, alongside our policies and procedures, into a single document.

The Citizenship Code is the place where we cement and express the importance of our values and principles, as well as setting out our major policies which embed these values, in one place.

Workforce Engagement

During the year, Andrew Harrison was appointed as Designated Non-Executive Director for engagement with the Company's workforce. Working with the Ocado Council, Andrew's role is one that complements and enables our commitment to giving our employees a voice.

This is already well serviced by the Ocado Council, which was created in the early years of Ocado to provide an effective mechanism for the Board to communicate directly with employees on Company achievements and concerns, and celebrating our successes in line with our Group People Values.

Each business area council is chaired by a member of our Management Committee while an Executive Director attends each Group Council meeting to update and take questions from representatives about the business. Minutes from each meeting are published on Fuse, our mobile first communications platform to which all employees have access. We now have eight communications channels ranging from weekly briefs to our in-house magazine.



CASE STUDY – DESIGNATED NON-EXECUTIVE DIRECTOR

“We work in a big and complex organisation with many groups around the business and my role is to effectively be the person who listens to all of those groups and to take that information back to the Board.”

Andrew Harrison

Non-Executive Director
Designated to Workforce Engagement



Andrew Harrison was appointed during the year as Designated Non-Executive Director for workforce engagement (“DNED”).

The process

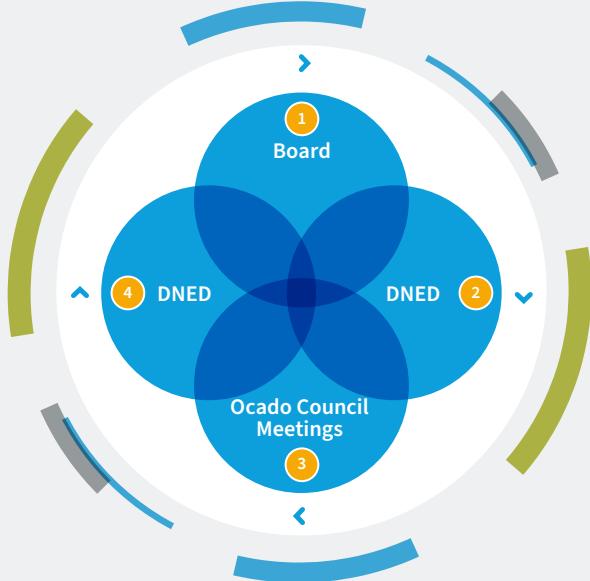
- Andrew attends the Group Council meetings approximately three times per year. At one of these meetings Andrew specifically focuses on communicating the executive remuneration policy to the workforce
- The Council Support Team collate questions from the workforce and present these to the DNED in writing ahead of the council meetings
- A reasonable portion of the meeting is dedicated to the DNED answering the relevant questions
- A summary of the questions posed to the DNED is reported to the Board
- The DNED ensures any follow-up action takes place

Focus during the period

- Moving from being a retail first business to a technology business
- Operating in ten countries across three continents
- Internal challenges to face like the disruption caused by the Andover fire
- Change within an organisation brings uncertainty and uncertainty brings challenges and opportunities

Looking forward

- Changes to our business at home and internationally
- Big macroeconomic changes – Brexit and increasing geographical expansion of Ocado

HOW THE DNED ENGAGES WITH THE BOARD**Strategic Report Approval**

The Company’s Strategic Report is set out on pages 12 to 65.

The Strategic Report is approved by the Board and signed on its behalf by

Neill Abrams

Group General Counsel and Company Secretary
11 February 2020

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Chairman's Governance Overview

"In this report we illustrate how our Company's purpose, values and strategy are aligned with our culture and how we consider our stakeholders in all key decisions."

Lord Rose
Chairman



Dear Shareholder

I am pleased to outline the Company's approach to corporate governance and to introduce the Corporate Governance Statement 2019.

The Board has always recognised the value and importance of good corporate governance and the role it plays in supporting the long-term success and sustainability of the business. We welcome the revised UK Corporate Governance Code 2018 (the "2018 Code") and we are making good progress towards full implementation of the 2018 Code for 2020. In this report we illustrate how our Company's purpose, values and strategy are aligned with our culture and how we consider our stakeholders in all key decisions. All our stakeholders are at the heart of what we do and this year, in response to the 2018 Code, we introduce a section on stakeholder engagement on pages 58 to 59.

GOVERNANCE HIGHLIGHTS

- John Martin joined the Board in June 2019 as an independent Non-Executive Director and member of the Audit and Nomination Committees
- Claudia Arney joined the Board in September 2019 as an independent Non-Executive Director and member of the Remuneration and Nomination Committees
- Appointment of Andrew Harrison as Senior Independent Director and Designated Non-Executive Director for workforce engagement
- An externally facilitated board evaluation conducted by Manchester Square Partners
- A continuing review of the 2018 Code, with steps taken towards full compliance for 2020
- A robust assessment of the Group's emerging and principal risks

Remuneration and Engagement with Stakeholders

Our Senior Independent Director ("SID"), Andrew Harrison, is available to all our shareholders and has engaged extensively with many of our major shareholders specifically on the subject of the Remuneration Policy which was approved at the 2019 annual general meeting. It is important that we explain how our Executive Director remuneration arrangements incentivise and support the achievement of our business objectives and sustain long-term value for shareholders. As the Group's strategy and development evolves, we expect to continue to engage with our shareholders and other stakeholders on changes to the executive remuneration arrangements.

We recognise that whilst all resolutions were passed at the 2019 annual general meeting held on 1 May 2019, including those relating to the Directors' Remuneration Policy, there was also significant opposition to four resolutions which received more than 20% of votes against them. Prior to the 2019 annual general meeting we communicated extensively with shareholders on these resolutions which gave us a clear understanding of why the majority supported them but also why there were objections raised against the resolutions.

In his capacity as Designated Non-Executive Director for engagement with the Company's workforce ("DNED"), Andrew Harrison will be engaging with elected employee representatives via the Ocado Council meetings to explain how executive remuneration aligns with the wider company pay policy.

→ For further information on this role and how it works in practice see page 65



Accountability and Risk

The Board formally reviews the Group's risk appetite each year and periodically discusses principal and emerging risks facing the Group and appropriate controls. Risk identification, controls and cost-benefit analysis regularly form part of the Board's deliberations on strategic decisions. Monitoring the Group's risk and assurance systems is key to the business and forms part of board meeting discussions. During the period, the Board approved a refreshed whistleblowing policy and process for the Group which includes an independent externally facilitated reporting system called Expolink.

There are 13 principal risks discussed in detail in this report including risks that are emerging as the strategic priorities for the business shift towards its International Solutions business.

- For more information about how the Company manages risk, please see pages 48 to 52

Leadership and Board Effectiveness

The Board needs to ensure that we have the right people and leadership in our Group to achieve the strategy and plans of the Group.

Over the last few months, the Board has participated in an externally facilitated evaluation of itself and its Committees to ensure that it can focus on driving transformational change at pace.

- For more information see page 78

Diversity and Succession Planning

As well as reviewing management succession plans, the Board has reviewed the combination of skills and experience on the Board, and has evaluated its composition looking at both the existing and desired skill sets of the Board. We strive to establish a culture that promotes integrity and values diversity at board-level. This important piece of work continues to form the basis of board diversity and succession discussions in 2020 as we consider the make-up of the Board that will best support the Company as it moves into the next stage of development. During the year, the Board has been asked to identify its own cognitive diversity characteristics taking into account less tangible factors such as life experience and personal attitudes. We aim to cultivate a broad spectrum of attributes and characteristics in the boardroom.

Future Outlook

This is the last year we are reporting under the UK Corporate Governance Code 2016 (the "Code"). Throughout this report we will be illustrating where we either comply with or are implementing processes in order to adopt the 2018 Code. We are very much aware that governance is a key part of the strength of our business and by continually reviewing and monitoring our existing practices we ensure that our governance evolves alongside the changing business.

Lord Rose

Chairman

11 February 2020





Corporate Governance Report

BOARD OF DIRECTORS



STANDING

Andrew Harrison
Senior Independent
Director and
Designated Non-
Executive Director

John Martin
Non-Executive Director

Jörn Rausing
Non-Executive Director

Duncan Tatton-Brown
Non-Executive Director
Chief Financial Officer

Julie Southern
Non-Executive Director

Neill Abrams
Group General
Counsel and Company
Secretary

Mark Richardson
Chief Operations
Officer



SEATED

Luke Jensen
Chief Executive Officer,
Ocado Solutions

Claudia Arney
Non-Executive Director

Tim Steiner, OBE
Chief Executive Officer

Emma Lloyd
Non-Executive Director

Lord Rose
Chairman

The Board Table



- Chairman
- Executive Director
- Senior Independent Director
- Non-Executive Director



+

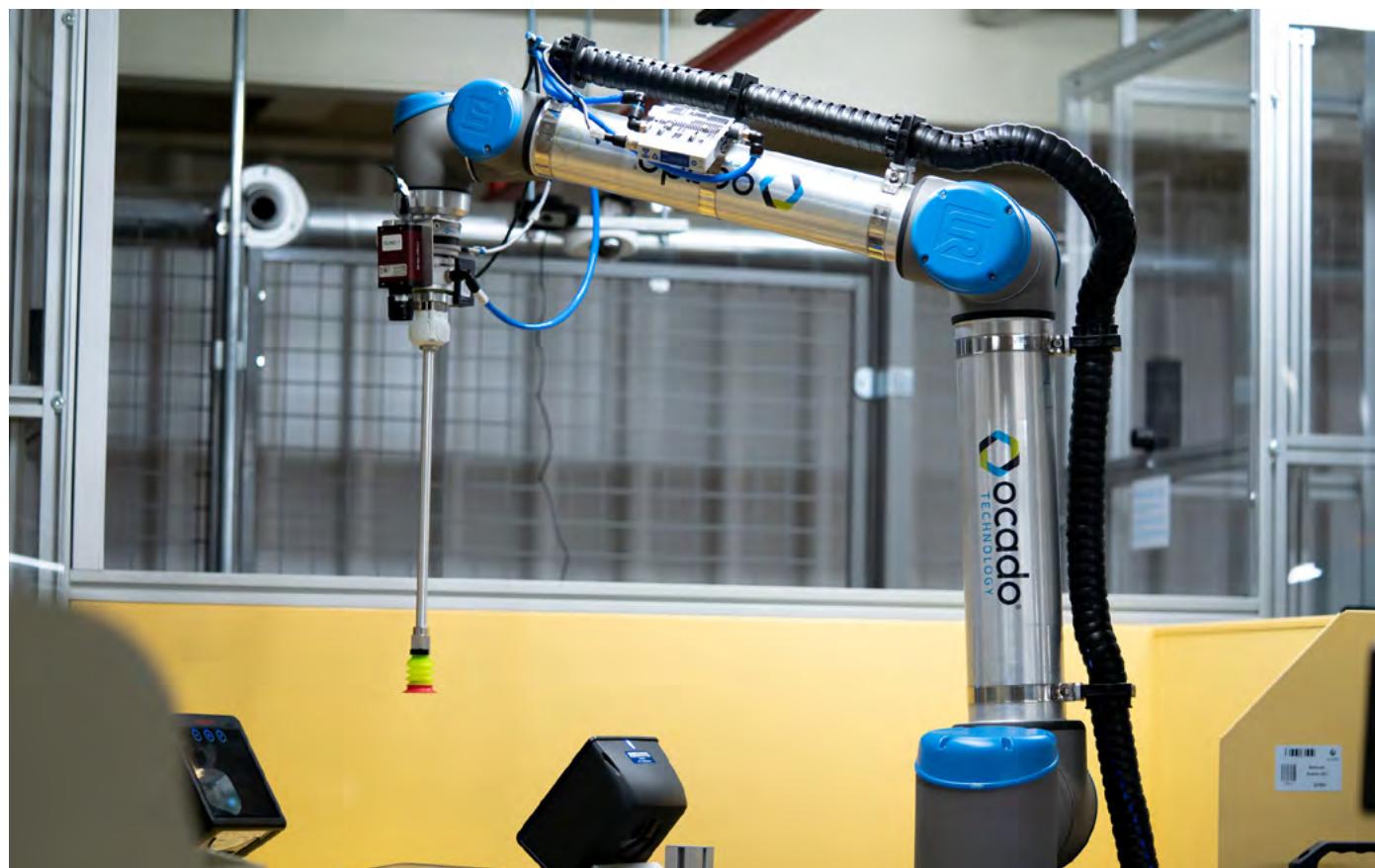
LEADERSHIP

Board and Committee Meetings and Attendance

	Board	Audit Committee	Nomination Committee	Remuneration Committee
Lord Rose (Chairman)	16 16	N/A	2 2	N/A
Andrew Harrison (SID, DNED)	15 16	7 7	2 2	6 6
Emma Lloyd (NED)	16 16	4 5	2 2	N/A
Jörn Rausing (NED)	14 16	N/A	1 2	N/A
Julie Southern (NED)	16 16	7 7	2 2	1 1
Claudia Arney (NED) – appointed within year	3 3	N/A	N/A	1 1
John Martin (NED) – appointed within year	5 5	2 2	1 1	N/A
Doug McCallum (NED) – resigned within year	10 11	N/A	1 1	5 5
Ruth Anderson (NED) – resigned within year	14 14	6 6	2 2	6 6
Tim Steiner (CEO)	16 16	N/A	N/A	N/A
Duncan Tatton-Brown (CFO)	16 16	N/A	N/A	N/A
Mark Richardson (COO)	16 16	N/A	N/A	N/A
Luke Jensen (CEO, Ocado Solutions)	14 16	N/A	N/A	N/A
Neill Abrams (Group General Counsel and Company Secretary)	16 16	N/A	N/A	N/A

● Meetings attended ● Possible meetings the Director could have attended

During the period, the Non-Executive Directors held a number of meetings without the Executive Directors present.





Corporate Governance Report

Continued

BOARD BIOGRAPHIES

Lord Rose

Chairman

Executive/Non-Executive: Non-Executive

Committee Membership: Nomination
(Chairman)

Independent: No

Biography: Lord Rose has worked in retail for over 40 years. He has held Chief Executive Officer positions at Argos plc, Booker plc, Arcadia Group plc and M&S plc. He was Chairman of M&S plc from 2008 to 2011. Lord Rose was knighted in 2008 for services to the retail industry and corporate social responsibility, and granted a life peerage in August 2014.

External Appointments: Chairman of Fat Face Group Limited; Chairman of Stylemania Limited, trading as Dressipi; Non-Executive Director of RM2 International S.A.; Chairman of Majid Al Futtaim Retail based in Dubai; Non-Executive Director of Time Out Group plc; Chairman of Zenith.

Tim Steiner, OBE

Chief Executive Officer

Executive/Non-Executive: Executive

Committee Membership: N/A

Independent: No

Biography: Tim is the founding Chief Executive Officer of Ocado, which he started in 2000 and has led uninterruptedly since that time. In 2016 he was appointed OBE in the Queen's Honours List, and in 2018 he was voted Sunday Times' Businessman of the Year. Prior to Ocado, he spent eight years at Goldman Sachs, during which time he was based in London, Hong Kong and New York in the Fixed Income division. Tim graduated from Manchester University in 1992 with an honours degree in Economics, Finance and Accountancy.

Luke Jensen

Chief Executive Officer,
Ocado Solutions

Executive/Non-Executive: Executive

Committee Membership: N/A

Independent: No

Biography: Luke joined Ocado as Chief Executive Officer of Ocado Solutions in 2017, before joining the Board in 2018. Prior to joining Ocado, Luke was a Senior Advisor at Boston Consulting Group and previously Group Development Director at Sainsbury's, where he was responsible for online and digital and all customer-facing digital activities. During his career, Luke has also worked at OC&C Strategy Consultants where he was Partner and Head of the Retail and Consumer practice. He graduated from ESCP and holds an MBA from INSEAD.

External Appointments: Non-Executive Director of Hana Group SAS, registered in France; Non-Executive Director of ASOS plc.

Duncan Tatton-Brown

Chief Financial Officer

Executive/Non-Executive: Executive

Committee Membership: N/A

Independent: No

Biography: Duncan was previously Group Finance Director of Kingfisher plc, one of the world's largest home improvement retailers. He has also been Chief Financial Officer of Fitness First plc, Finance Director of B&Q plc, Chief Financial Officer of Virgin Entertainment Group and held various senior finance positions at Burton Group plc. He has previously held Non-Executive Director positions at Rentokil Initial plc and ZPG plc.

External Appointments: Non-Executive Director of Trainline plc; Non-Executive Director of Karakuri Ltd*.

*Ocado owns 20.8% of Karakuri Ltd.

Neill Abrams

**Group General Counsel and
Company Secretary**

Executive/Non-Executive: Executive

Committee Membership: N/A

Independent: No

Biography: Neill was on the founding team of Ocado, joining the Board in September 2000. He has responsibility for the Group Operations departments – Legal, Governance, Intellectual Property, Insurance, Real Estate, Government Relations and Corporate Responsibility. Prior to Ocado, he was a barrister in practice at One Essex Court and spent nine years at Goldman Sachs in London in the investment banking and legal divisions. Neill holds degrees in industrial psychology and law from the University of the Witwatersrand in Johannesburg and a Masters in Law from Sidney Sussex College, Cambridge. He is admitted as a barrister in England & Wales, an attorney in New York and an advocate in South Africa.

External Appointments: Non-Executive Director of Mr Price Group Limited, listed in South Africa.

Mark Richardson

Chief Operations Officer

Executive/Non-Executive: Executive

Committee Membership: N/A

Independent: No

Biography: Mark was Head of Technology at Ocado from 2001 until he joined the Board in 2012. He is responsible for the day-to-day running of the Ocado operation, including CFCs, logistics developments, customer service, business planning, engineering and for the installation and maintenance of international OSP facilities. Prior to joining Ocado, Mark held a number of IT positions at the John Lewis Partnership, including Head of Selling Systems at Waitrose. He graduated from University College, London with a degree in Physics.

External Appointments: Non-Executive Director of Paneltex Ltd*.

*Ocado owns 25% of Paneltex Ltd.

● Chairman

● Executive Director

● Senior Independent Director

● Non-Executive Director



<p>Andrew Harrison</p> <p>Senior Independent Director and Designated Non-Executive Director</p> <p>Executive/Non-Executive: Non-Executive</p> <p>Committee Membership: Remuneration (Chairman), Audit, Nomination</p> <p>Independent: Yes</p> <p>Biography: Andrew is a partner at Freston Ventures Management Ltd, which invests in consumer brands that challenge the status quo. He chairs two of the businesses, House Simple and Whocanfixmycar.com, and advises others such as Five Guys, Secret Cinema and Cubitts. Andrew previously served as Chairman of Carphone Warehouse Ltd and was formerly Group CEO of Carphone Warehouse plc before its merger, which he led with Dixon's Group plc. During his career he has successfully grown numerous new businesses, has international retail experience and developed and ran a global services business. Andrew graduated from the University of Leeds with a BA (Hons) in Management Studies in 1992.</p> <p>External Appointments: Trustee of The Mix; Chairman of House Simple Ltd; Partner of Freston Ventures Management Ltd; Director of Chik'n Ltd; Director of Whocanfixmycar.com Ltd.</p>	<p>Jörn Rausing</p> <p>Non-Executive Director</p> <p>Executive/Non-Executive: Non-Executive</p> <p>Committee Membership: Nomination</p> <p>Independent: Yes</p> <p>Biography: Jörn is the Head of M&A for Tetra Laval Group and has over 30 years' experience in corporate development and international mergers and acquisitions. Jörn holds a degree in Business Administration from Lund University, Sweden.</p> <p>External Appointments: Group Board Member of Tetra Laval; Board Member of Alfa Laval AB; Board Member of DeLaval Holding AB.</p>	<p>Emma Lloyd</p> <p>Non-Executive Director</p> <p>Executive/Non-Executive: Non-Executive</p> <p>Committee Membership: Nomination, Audit</p> <p>Independent: Yes</p> <p>Biography: As Sky's Chief Business Development Officer, Emma identifies and builds revenue growth opportunities. This includes responsibility for key strategic relationships with Sky's technology and content partners. Emma has overseen the creation of Sky's start-up venture investment function and US presence, leading to the investment in over 30 technology start-ups. Emma graduated with a BA Joint Hons in Management Studies and Geography from the University of Leeds in 1992.</p> <p>External Appointments: Chief Business Development Officer Sky Group.</p>
<p>John Martin</p> <p>Non-Executive Director</p> <p>Executive/Non-Executive: Non-Executive</p> <p>Committee Membership: Nomination, Audit</p> <p>Independent: Yes</p> <p>Biography: John has extensive operational and financial management experience of running large international businesses, as well as significant experience in strategic development and driving improvements in operational performance. Until he stepped down from the role in November 2019, John was Group Chief Executive for Ferguson plc, the world's leading specialist distributor of plumbing and heating products. John was also a partner at Alchemy Partners, the private equity group, and prior to that he was Chief Financial Officer at Travelex Group, the international payments business, and Hays Plc. John graduated from Imperial College, London in 1987 and qualified as a Chartered Accountant with Arthur Andersen, where he worked for nine years in Audit, Operational Consulting and Corporate Finance. He was also Group Controller of The Stationery Office Group after its privatisation in 1996.</p>	<p>Julie Southern</p> <p>Non-Executive Director</p> <p>Executive/Non-Executive: Non-Executive</p> <p>Committee Membership: Audit (Chairman), Nomination, Remuneration</p> <p>Independent: Yes</p> <p>Biography: Previously a finance director at Virgin Atlantic and at Porsche Cars Great Britain, Julie has extensive executive experience and has chaired audit committees at various FTSE listed companies with operations both in the UK and internationally. She is also an experienced remuneration committee chairman. Julie holds a BA (Hons) in Economics from the University of Cambridge and is a Chartered Accountant.</p> <p>External Appointments: Non-Executive Director and Chairman of the Audit Committee of Rentokil Initial plc; Non-Executive Director and Chairman of the Audit Committee at NXP Semiconductors N.V.; Non-Executive Director and Chairman of the Audit Committee of easyJet plc.</p>	<p>Claudia Arney</p> <p>Non-Executive Director</p> <p>Executive/Non-Executive: Non-Executive</p> <p>Committee Membership: Nomination, Remuneration</p> <p>Independent: Yes</p> <p>Biography: Claudia brings extensive experience, both executive and non-executive, with a particular focus on business transformation and technology. She completed an MBA at INSEAD and has held senior roles at EMAP, Pearson, the Financial Times and Goldman Sachs.</p> <p>External Appointments: Non-Executive Director and Chairman of the Governance Committee of Aviva plc; Non-Executive Director and Chairman of the Remuneration Committee of Kingfisher plc; Non-Executive Director and Chairman of the Remuneration Committee of Derwent London plc; Non-Executive Director and Interim Chairman of the FA Premier League Ltd.</p>

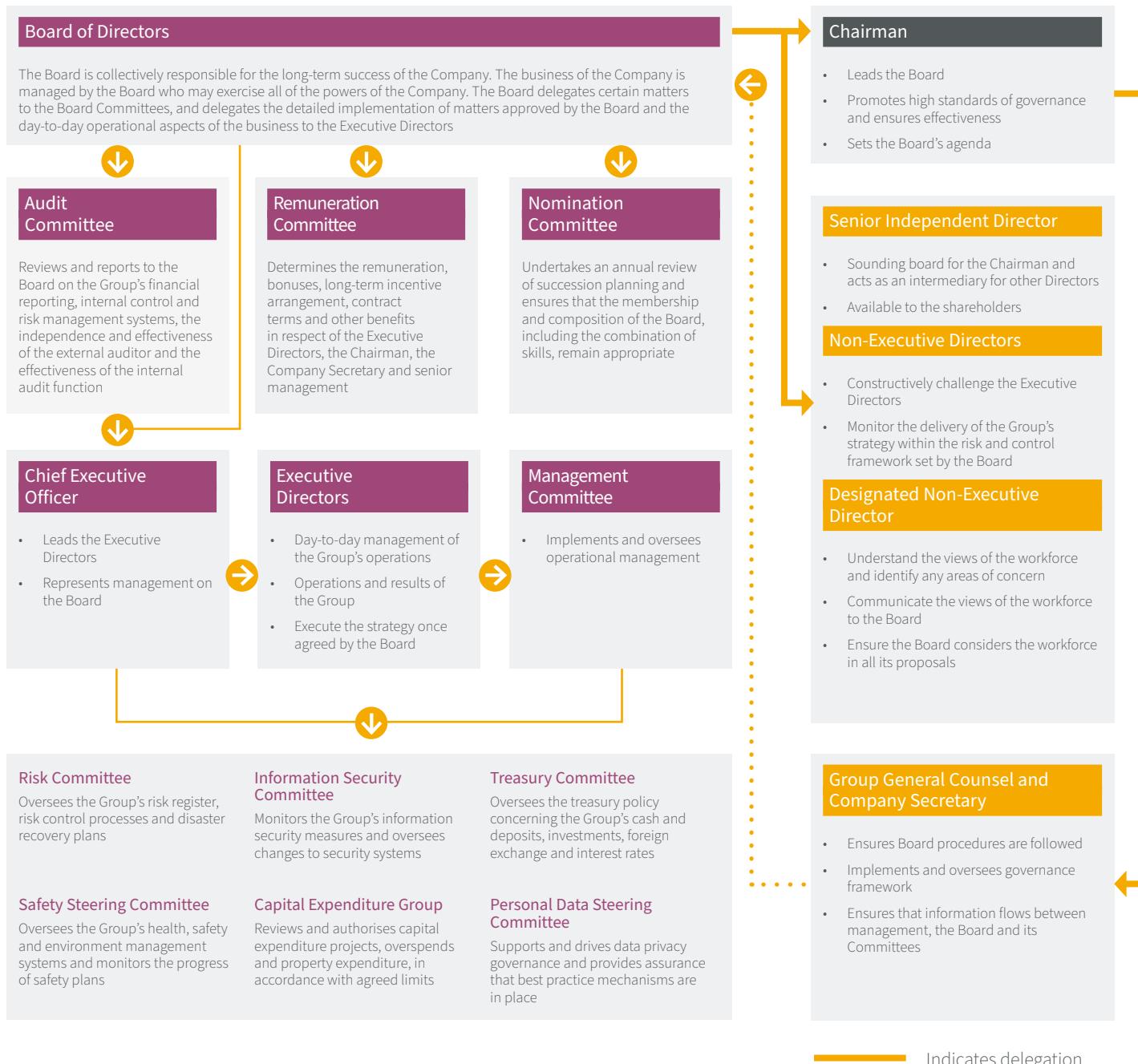
Corporate Governance Report

Continued

Leadership Structure

The structure of the Board is designed to ensure that the Board focuses on strategy, monitoring the performance of the Group and governance, risk and control issues.

The following diagram shows the role of the Board and its Committees and management:



Certain detailed aspects of the Board's responsibilities are delegated to the Executive Directors. The Executive Directors carry out some of these responsibilities through Executive-led Committees. These Committees, whose roles are set out above, formally report to the Executive Directors, and may provide reports to the Board or Board Committees from time to time. The Management Committee comprises the Executive Directors and 11 members of management.

The reports by each Board Committee are given in this Annual Report. The role descriptions for CEO, Chairman, SID and DNED are set out in writing and provide a system of checks and balances to ensure no individual has unfettered decision-making power.



What the Board Did This Year

The Board's activities are structured through the year to develop and support the delivery of the Group's strategy, and to ensure the long-term success of the Group for customers, investors and wider stakeholders and in creating shareholder value.

The Board uses these Board meetings as a mechanism for discharging its duties under section 172 of the Companies Act 2006.

→ For more information see pages 58 to 59

The Board's discussions throughout the year were focused on our strategic objectives:



Utilising Knowledge



Maximising Efficiency



Improving the Proposition

The actions taken by the Board throughout the period reflected these strategic goals.

The Board also regularly discussed governance, risk management and the Group's financial performance giving particular consideration to the Group's stakeholders and to ensuring that the culture of the Company is aligned with its purpose, values and strategy.

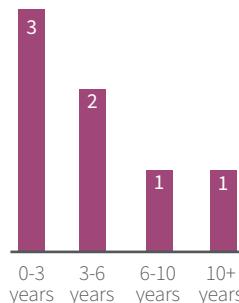
The table below sets out some of the Board's key areas of focus and discussions through the year and how these developed and supported our strategy.

Responsibility	Strategy, Performance and Financing	Reporting, Risk Management and Accountability Controls	Oversight of the Group's Operations and Technology Development	People, Governance and Corporate Responsibility
Specific Actions During the Period	<p>↓</p> <p>Annual strategy conference to review and set the Group's strategy and medium-term plan.</p> <p>Overseeing Ocado Solutions negotiations and discussions.</p> <p>Overseeing the creation of the Ocado Retail joint venture and other strategic transactions.</p> <p>Receiving reports from senior management (including Ocado Retail) on trading, business performance and financing.</p>	<p>↓</p> <p>Annual review of key risks and risk appetite, and reviewing reports of risk management.</p> <p>Review of reports on specific risk areas including Ocado Smart Platform ("OSP") control environment.</p> <p>Reviewing and approving the Group's regulatory announcements and reports.</p> <p>Reviewing reports on health and safety, litigation, investor relations, and legal and company secretarial matters.</p>	<p>↓</p> <p>Approving the annual budget, the business plan for the Group and individual capital expenditure projects.</p> <p>Receiving reports on patent protection of the Group's technology.</p> <p>Receiving regular reports on the key projects including new technologies.</p> <p>Receiving regular reports on implementation of CFC projects for Solutions clients and the Group's transformation program.</p>	<p>↓</p> <p>Receiving reports on people issues including gender pay gap analysis. Discussing corporate responsibility goals and progress.</p> <p>Approving the Group's various non-financial reports.</p> <p>Receiving various reports on governance and regulatory changes, including the Group's responsibilities under GSCOP.</p> <p>Receiving reports on the Group's environmental initiatives and responsibilities.</p>
	<p>↓</p> <p>Providing entrepreneurial leadership to the Group with overall responsibility for driving performance through debate and constructive challenge of management.</p>	<p>↓</p> <p>The Board is ultimately responsible for the Company's risk appetite and viability, and therefore plays a key role in reviewing the risks that face the business and ensuring that it has and retains oversight of specific, high-risk areas.</p>	<p>↓</p> <p>Operational efficiency is regularly discussed and challenged at Board meetings and is considered an important driver for both growth and developing our proprietary knowledge, and therefore the Group's strategy.</p>	<p>↓</p> <p>The Board discusses stakeholder issues through the year, including investor, customer and employee issues. The Board is updated regularly on governance matters.</p>
	<p>Developing effective leadership in the Board and throughout the business, and ensuring the right personnel are in place.</p>	<p>The Board discusses Company-specific risks and uncertainties, including the environment in which the business operates, such as cybercrime and Brexit.</p>	<p>The Board discusses the status and progress of the implementation of key projects including Solutions contracts.</p>	<p>The Board receives updates throughout the year on recruitment and retention, in the UK and internationally, including the impact on the Group's operational strategy.</p>
	<p>As a significant part of the growth strategy, reviewing the strategy of overseas expansion and the capabilities required to make this successful.</p>	<p>The Board reviews the Company's Viability Statement and Going Concern Statement.</p>	<p>The commercialisation of Ocado Solutions is a key strategy for the Group. The Board reviews IP strategy and Ocado Solutions negotiations at each Board meeting.</p>	<p>The Board discusses the Group's responsibility to consider its impact on the environment.</p>

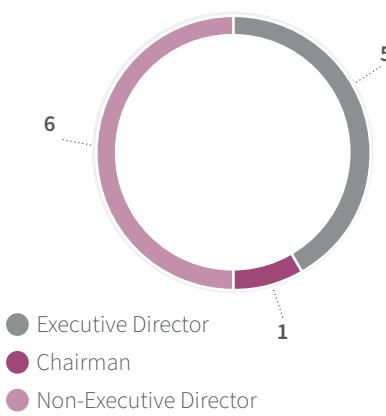
Corporate Governance Report

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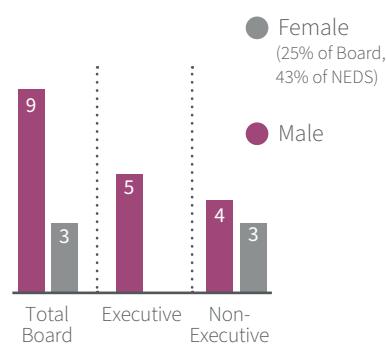
Length of Tenure of Chairman and Non-Executive Directors



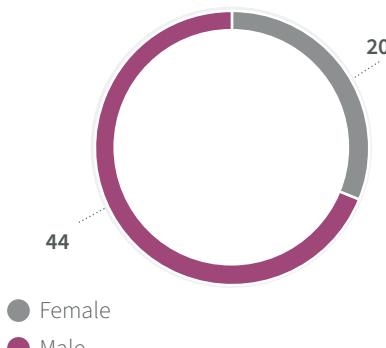
Board Independence



Board Gender Diversity



Senior Management Gender Diversity



Composition of the Board

Review of Board and Board Committee Composition

A number of changes were made to the composition of the Board during the period. In making these changes, the Board took into account various considerations including length of Director tenure, Board diversity, independence and the combination of skills and experience of the Directors. Some of these considerations are outlined below.

Board Tenure and Reappointment

The Board takes into account the length of tenure of existing Directors when considering reappointment and succession planning. Our articles of association ("Articles") provide that our Directors must retire at every annual general meeting following their last election or reappointment by our shareholders.

This is consistent with the recommendation contained within the Code that all directors should be subject to annual election by shareholders. Jörn Rausing has served as a Non-Executive Director for over 16 years, seven of which were before the Company's Admission. Accordingly, the recommendation of his reappointment to the Board was subject to particular scrutiny (including the importance of maintaining Board continuity).

Independence

The Code recommends that at least half of the Board, excluding the Chairman, should comprise Non-Executive Directors determined by the Board to be independent. Since, excluding the Chairman (who was independent on appointment), there were six Non-Executive Directors all determined by the Board to be independent and five Executive Directors, the Board complies with this recommendation at the end of the period. The chart on page 70 illustrates the composition of the Board in respect of the independence of its members as at the end of the period.

Similarly, the composition of the Nomination Committee, Audit Committee and Remuneration Committee comply in all respects with the independence provisions of the Code.

The Board has scrutinised the factors relevant to its determination of the independence of Non-Executive Director Jörn Rausing.

Jörn Rausing

Jörn Rausing has been a Director for 16 years, nine of which the Company was listed. Jörn is a beneficiary of the Apple III Trust, which owns Apple III Limited (together, "Apple"), a significant (approximately 10%) shareholder of the Company. Jörn is not a representative of Apple, nor does Apple have any right to appoint a Director to the Board.

The Board considers his continuing directorship to benefit the Group and support the principles of the Code. Jörn's significant experience as a co-owner and manager of Tetra Laval, a global technology and industrial group, enhances the skills and experience on the Board in addition to bringing international expertise during a period when the Group is expanding substantially outside of the UK. Jörn also ensures there is a long-term perspective brought to the Board's decision-making reflecting the approach adopted at Tetra Laval to its own technology development and commercial expansion.

The Board considers Jörn to be independent in character and judgement, and does not believe the size of Apple's shareholding, nor the duration of Jörn's tenure on the Board, amounts to a relationship or circumstance which may affect his judgement. Jörn has stood for re-election annually since 2011 and on each occasion has been re-elected by a substantial majority of shareholders.

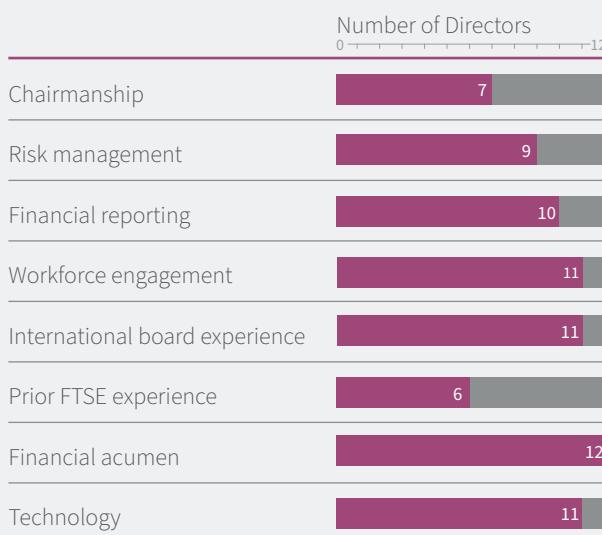
→ Read more about the Board's attendance on page 71



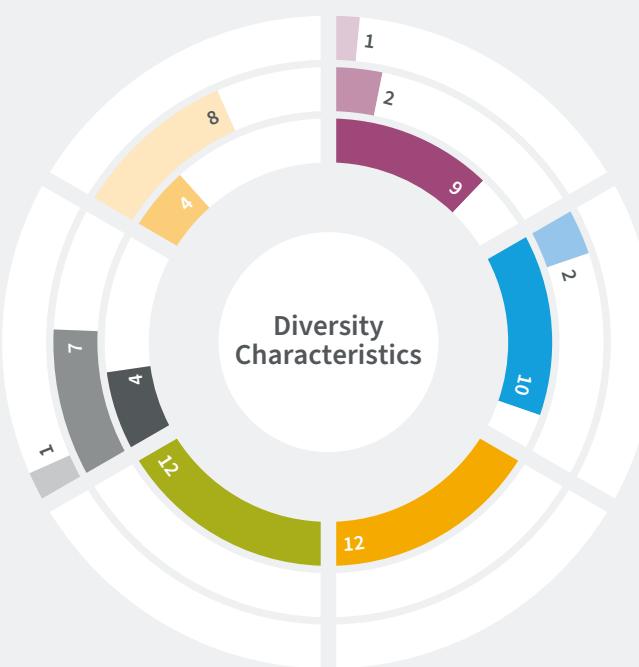
Board Diversity

The Board and Nomination Committee are mindful of the corporate governance developments in the areas of diversity. During the period we asked the Board to identify their own diversity characteristics. The charts on page 76 illustrate the gender diversity of the Board and senior management. The Board has reviewed its policy and objectives on diversity and more detail on this review can be found on pages 69 and 90.

Combination of skills and experience as identified by the Board



The Board participated in a process to identify their own cognitive diversity characteristics taking into account less tangible factors such as life experience and personal attitudes⁽¹⁾.



Age

- 41-55
- 56-70
- 70+

What is your ethnic group?

- White
- Mixed/multiple ethnic groups

Sexual orientation

- Heterosexual/straight

Do you consider yourself to have a disability defined by the Equality Act 2010?

- No

What is your highest level of educational attainment?

- Level 7 – Master's degree
- Level 6 – Bachelor's degree
- Level 5 – Higher national diploma

Were you educated outside of the UK?

- Yes
- No

(1) Categories taken from the Office for National Statistics.



Corporate Governance Report

Continued

Review of Board Effectiveness

An annual review is conducted to reflect on the performance and effectiveness of the Board, and to consider how individual Directors and the Board as a whole need to continue to evolve to provide the leadership required for the future success of the organisation.

Our Three-Year Board Evaluation Cycle

2018 → 2019 → 2020

Internal evaluation supported by
Independent Audit

Externally facilitated evaluation conducted
by Manchester Square Partners ("MSP")

Internal evaluation

+

EXTERNAL EVALUATION PROCESS

Appointment of Consultants

- A request for proposal was circulated to a cross-section of board evaluation advisers
- The proposals were reviewed and short-listed to three advisers who were asked to meet and discuss their proposals with the Chairman and the Senior Independent Director
- Following consideration, MSP (who have no other connection with the Company, and are considered by the Board to be independent) were selected as the independent consultant

Evaluation Process

Step 1: Background Familiarisation by MSP

- Briefing meeting held with the Chairman to understand context and priorities for the evaluation
- Board and Committee papers reviewed for the past 12 months, together with the reports of previous evaluations

Step 2: Formal Interviews

- One-to-one meetings held with each Board member and key executives

Step 3: Board Observation

- Observation of a full Board meeting to further understand Board dynamics

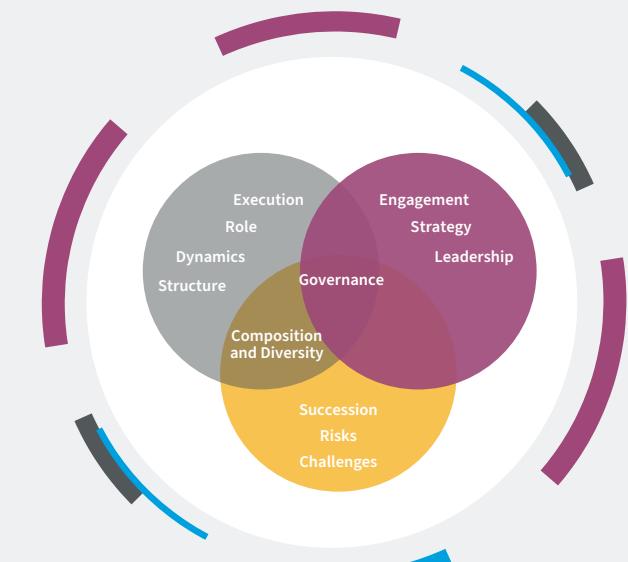


Evaluation Outcome:

Key findings and themes were discussed and evaluated with the Chairman and the Senior Independent Director and a Board evaluation report prepared and produced to the Board for discussion

Board Evaluation Framework

The evaluation was undertaken with reference to the UK Corporate Governance Code 2018, within a framework focusing on a wide range of areas from strategy to governance. The Board recognises that a continuous and constructive review of its performance is an important factor in achieving its objectives and realising its full potential. It will continue to conduct annual reviews with external input at least once every three years.



● Board Leadership and Company Purpose

● Division of Responsibilities

● Composition, Succession and Evaluation



External Board Evaluation Results 2019

The evaluation report indicated that the Board is constructive, collegiate and supportive, and that there is effective leadership from the Chairman, ensuring appropriate corporate governance without losing entrepreneurial spirit. All Board Committees are operating well and the Non-Executive Directors are engaged and committed to adding value to the Board. The Board dynamics and clear aligned vision are a key area of strength.

The review also highlighted a number of focus areas for the Board and its Committees to consider during 2020, including:

KEY AREA 1 Board pack and presentations Action: Review of Board meeting reporting and development of metrics that more readily highlight key points for discussion and enable an appropriate level of preparation, questions, debate and challenge.	KEY AREA 2 Length of meetings Action: Given the pace of activity and change, allotted time for Board meetings should be extended to ensure enough opportunity for full discussion on all agenda topics.	KEY AREA 3 Visibility of relationship with stakeholders Action: Given the evolving range and nature of key stakeholder groups, further visibility and review of key stakeholders to take place at Board level.	KEY AREA 4 Board composition Action: Consider a Non-Executive Director that will further support the Group's shift towards the Solutions business.
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Internal Board Evaluation Results 2018

The main focus areas and recommended actions identified and progress made, included:

KEY AREA 1 Leadership required to support senior management with technological development internationally Action: Consider the appointment of Non-Executive Directors with software and international experience to complement existing experience. Outcome: John Martin and Claudia Arney joined the Board as Non-Executive Directors on 1 June 2019 and 1 September 2019 respectively. John's wealth of international experience and Claudia's extensive experience of business transformation and the technology sector complement the Board and further support technological development internationally.	KEY AREA 2 Succession planning for senior management to ensure it has the right skills and experience to drive forward the international expansion of the business Action: Increase the focus of building up the senior management team. Outcome: The senior management team has been further strengthened with the addition of a new Chief Operating Officer of Technology, Chief People Officer and a Solutions Commercial Director. The Executive Directors also completed a review which included a review of individual performance, identified development opportunities, role changes and future leaders to drive forward the international expansion of the business.	KEY AREA 3 More informal time together outside of the boardroom Action: Add into the Board calendar pre-meeting and post-meeting events away from the boardroom. Outcome: The Board met off site for two days for strategy planning in June 2019. A post Board meeting dinner was also held in November 2019, as well as a few other ad hoc informal occasions during the year.	KEY AREA 4 Shifting the Board agenda focus areas Action: Spend more time reviewing progress and the delivery of Ocado Solutions objectives and commitments. Outcome: Solutions progress, objectives and deliverables are reviewed and discussed more extensively at all Board meetings.
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- Board Leadership and Company Purpose

- Division of Responsibilities

- Composition, Succession and Evaluation



Corporate Governance Report

Continued

Director Election

Each Director is required under the Articles to retire at every annual general meeting (each Director may offer himself or herself for reappointment by the members at such meeting). At the 2019 annual general meeting, all of the current Directors (except John Martin and Claudia Arney, who had not yet been appointed) stood for reappointment, and were duly elected with majorities ranging from 82.70% to 99.60% of the votes cast.

All Directors will retire and seek re-election at the Annual General Meeting of the Company, which will be held at 10am on 6 May 2020 at Numis Securities Limited, The London Stock Exchange Building, 10 Paternoster Square, London, EC4M 7LT (“AGM”). The explanatory notes set out in the Notice of Meeting state the reasons why the Board, and specifically the Chairman, believes a Director proposed for re-election at the AGM should be reappointed. The Board has based its recommendations for re-election, in part, on its review of the results from the Board evaluation process outlined on pages 78 and 79, on the reviews of the Chairman and of the Executive Directors conducted at the meetings of the Non-Executive Directors, the Chairman’s review of individual evaluations, and whether a Director has demonstrated substantial commitment to the role (including time for Board and Committee meetings noted in this report) and other responsibilities, taking into account a number of considerations including outside commitments and any changes thereof (outlined below) during the period.

→ The rules that the Company has about the appointment and replacement of Directors are described in the Directors’ Report on page 133

External Board Appointments and Conflicts of Interest

There have been a number of changes to the Directors’ external appointments during the period as set out in the table below. The Chairman and the Board are kept informed by each Director of any proposed external appointments or other significant commitments as they arise. These are monitored to ensure that each Director has sufficient time to fulfil their obligations. Each Director’s biographical details and significant time commitments outside of the Company are set out in the Board Biographies section on pages 72 and 73.

Change in Directors’ Commitments

Director	Change in Commitment	Effective Date of Change
Andrew Harrison	Appointed as Director of Whocanfixmycar.com Ltd	26 March 2019
Claudia Arney	Resigned as Director of Halfords Group plc	1 March 2019
Duncan Tatton-Brown	Appointed as Director of Trainline plc	10 June 2019
	Appointed as Director of Karakuri Ltd*	18 April 2019
John Martin	Resigned as Director of Ferguson Group Holdings	19 November 2019
Julie Southern	Resigned as Director of Cineworld Group plc	15 May 2019
	Resigned as Director of DFS Furniture plc	29 March 2019
Luke Jensen	Appointed as Director of ASOS plc	1 November 2019

* Ocado owns 20.8% of Karakuri Ltd.

The Companies Act 2006 provides that Directors must avoid a situation where they have, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company’s interests. Boards of public companies may authorise conflicts and potential conflicts, where appropriate, if their company’s articles of association permit, which the Articles do.

Whenever a Director takes on additional external responsibilities, the Director will discuss the potential position with the Chairman and confirm that as far as they are aware, there are no conflicts of interest.

Each Director is required to disclose conflicts and potential conflicts to the Chairman and the Company Secretary as and when they arise. As part of his or her induction process, a newly appointed Director completes a questionnaire that requires him or her to disclose any conflicts of interest to the Company. Thereafter, each Director has an opportunity to disclose conflicts at the beginning of each Board and Board Committee meeting and as part of an annual review. During the year some Directors declared potential conflicts of interest in relation to matters being discussed by the Board and as such did not participate in discussions regarding these matters. None of the other Directors declared to the Company any actual or potential conflicts of interest between any of his or her duties to the Company and his or her private interests and/or other duties, except in the case of the Executive Directors, each of whom holds the position of Director of the Company and Director of a number of Group subsidiary companies. The system in place for monitoring potential Director conflicts remained effective throughout the period.

Ocado Retail Limited and Conflicts of Interest

Tim Steiner and Duncan Tatton-Brown are Ocado appointed directors on the Ocado Retail Limited (“Ocado Retail”) board. Notwithstanding their Companies Act 2006 duties and obligations under the Articles, both directors are subject to the provisions of the Ocado Retail articles of association and to the provisions within the Ocado Retail shareholders agreement on conflicts of interest and related party matters.

Board Activities Relating to Culture

We recognise that our success is partly attributed to our culture and the Board recognises the importance of stepping out from behind the board table and meeting with the workforce. The Board as a whole has collective responsibility for its decisions and how they are reached, as such all Directors are engaged with the workforce. We were very pleased to appoint Andrew Harrison as the Designated Non-Executive Director for workforce engagement during the year, and look forward to reporting more on culture and on the impact of this new role in next year’s annual report. We will continue our journey to develop a culture, in partnership with colleagues and our Ocado Group leaders (including our new Head of Diversity and Inclusion), that upholds the benefits of diversity and inclusion as enablers for achieving the organisational aims and objectives upheld by our Values.



Board Induction and Professional Development

On joining the Board, it is the responsibility of the Chairman and Company Secretary to ensure that all newly appointed Directors receive a full and formal induction, which is tailored to their individual needs. The induction programme includes a comprehensive overview of the Group, dedicated time with Executive Directors and senior management, as well as guidance on the duties, responsibilities and liabilities as a Director of a listed company. Directors visit CFCs and participate in van delivery routes to allow them to gain sufficient knowledge and understanding of the business, operations and culture. These activities formed part of the induction programme for John Martin and Claudia Arney, who joined the Board in June 2019 and September 2019, respectively.

The Board and Board Committees receive training, including in specialist areas. Training is typically arranged by the Company Secretary in consultation with the Chairman or relevant Board Committee Chairman. The members of the Remuneration Committee received updates from the Remuneration Committee's remuneration advisers including on the new remuneration reporting market practices.

Members of the Audit Committee receive written technical updates from the external auditor to keep them abreast of the latest accounting, auditing, tax and reporting developments. The Board have also received briefings from external advisers on a range of strategic matters.

Information for Directors

The Chairman is responsible for ensuring that all of the Directors are properly briefed on issues arising at Board meetings and that they have full and timely access to relevant information. To enable the Board to discharge its duties, all Directors receive appropriate information from time to time, including briefing papers distributed in advance of the Board meetings.

Directors can, where they judge it to be necessary to discharge their responsibilities as Directors, obtain independent professional advice at the Company's expense. The Board Committees have access to sufficient resources to discharge their duties, including external consultants and advisers. The Directors have access to the advice and services of the Company Secretary when required.

Engagement with Major Shareholders

The Company is committed to keeping shareholders informed of its strategy and progress. The Chairman has overall responsibility for ensuring that the Company has appropriate channels of communication with its shareholders and is supported in this by the Senior Independent Director and the Executive Directors. Lord Rose and members of the Board have met with various investors throughout the year to discuss matters such as strategy, corporate governance and executive remuneration.

The graphic below clearly demonstrates the importance that the Company places on engagement with investors. Here we see global engagement with its large investors, institutional shareholders and prospective shareholders using different methods including non-deal roadshows, site visits and conferences as well as Company results presentations in line with the reporting cycle to which analysts are also invited.





Corporate Governance Report

Continued

The Board regularly receives feedback from the Company's brokers, advisers and the Executive Directors on the views of major shareholders and the investor relations programme, and also receives reports at each Board meeting on the main changes to the composition of the Company's share register.

We held a number of investor days at our new CFCs in 2019 to enable our investors to view the progress at the new sites.

The Senior Independent Director, Andrew Harrison, has discussed the Remuneration Policy and related issues with most of our largest shareholders during the period.

Engagement with Stakeholders

The Board oversaw a review of its stakeholders during the year, recognising the shift in stakeholders and their interests post the Ocado Retail joint venture. During the year we conducted a stakeholder engagement analysis workshop to help record the interests of all the Group's stakeholders. For more details on this see pages 58 and 59.

How the Directors Formally Report to Shareholders and take Responsibility for this Annual Report

Communication and shareholder engagement are important to the Board. Therefore the Company follows a regular reporting and announcement agenda including the formal regulatory news service announcements in accordance with the Company's reporting obligations. The Company reports trading performance, including information on the growth of the Retail revenue and average order numbers and size, on a quarterly basis; recognising that it is important to regularly update the market due to the emphasis shareholders place on receiving regular communications about sales and the current competitive pressures in the market.

Other announcements include the half year report, the preliminary announcement of annual results, the Annual Report and investor presentation slides and videos. We also presented to shareholders on changes in our segmental reporting, key accounting policies and KPIs. These documents are available on the Company's corporate website, www.ocadogroup.com ("Corporate Website"). Shareholders can choose to receive the Annual Report in paper or electronic form. A completely new version of the Corporate Website was released after the period end, designed to provide more effective communication with shareholders and other stakeholders.

The Directors take responsibility for preparing this Annual Report and make a statement to shareholders to this effect. The Statement of Directors' Responsibilities on page 137 of this Annual Report is made at the conclusion of a robust and effective process undertaken by the Company for the preparation and review of this Annual Report.

The Directors believe that these well-established arrangements enable them to ensure that the information presented in this Annual Report complies with the disclosure requirements, including those in the Companies Act 2006, and is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy. In addition to this Annual Report, the Company's internal processes cover (to the extent necessary) the preliminary announcement, the half year report, trading statements and other financial reporting.

The Company's internal processes in the preparation and review of this Annual Report (and other financial reporting) include:

- review of and feedback on iterations of this Annual Report by the Executive Directors and the full Board;
- in-depth review of specific sections of this Annual Report by the relevant Board Committees;
- Audit Committee review of a management report on accounting estimates and judgements, auditor and management reports on internal controls and risk management, accounting and reporting matters and a management representation letter concerning accounting and reporting matters;
- Board and Audit Committee review of a supporting paper specifically highlighting the parts of this Annual Report that best evidenced how this Annual Report was fair, balanced and understandable;
- paper from the Company Secretary highlighting how reporting, regulatory and governance issues had been addressed in this Annual Report;
- Board and Audit Committee review of management reports on assessments on going concern and viability;
- the Audit Committee regularly reporting to the Board on the discharge of its responsibilities;
- input from both internal and external legal advisers and other advisers to cover relevant regulatory, governance and disclosure obligations;
- discussions between contributors and management to identify relevant and material information;
- detailed debates and discussions concerning the principal risks and uncertainties;
- checking of factual statements and financial information against source materials;
- specific Board review of Directors' belief statements and key statements; and
- separate approval by the Group General Counsel, the Board Committees and the Board.

The statement by the external auditor on its reporting responsibilities is set out in the Independent Auditor's Report on page 148.

The Group receives reporting and information from the Ocado Retail joint venture. The Ocado Retail board reviews and approves financial information and reporting regarding Ocado Retail, which is then consolidated into the Group.

In addition to this Annual Report, the Group provides other statements to its shareholders regarding the Group and its operations, including the modern slavery statement, tax strategy statement, gender pay and supplier payments.

→ For further information on the Group's activities in these areas, see the Strategic Report on pages 12 to 65



The Company's Annual General Meeting 2020

Shareholders will have the opportunity to meet and question all of the Directors at the AGM.

A detailed explanation of each item of business to be considered at the AGM is included with the Notice of Meeting. Shareholders who are unable to attend the AGM are encouraged to vote in advance of the meeting, either online at ocadoshares.com or by using the proxy card which is sent with the Notice of Meeting (if sent by post) or can be downloaded from the Corporate Website, www.ocadogroup.com.

Shareholder Voting 2019 Annual General Meeting

At the 2019 annual general meeting, all resolutions were passed with votes in support ranging from 74.62% to 100%.

At the 2019 annual general meeting, Resolution 2 (the Directors' Remuneration Policy), Resolution 3 (the Directors' Remuneration Report), Resolution 19 (the Ocado Value Creation Plan) and Resolution 23 (the amendment to the Chairman's Share Matching Award) received more than 20% of votes against them. The Board recognised that some shareholders voted against our remuneration proposals.

In preparing the 2019 remuneration proposals, the Company carried out an extensive shareholder consultation exercise with its largest shareholders and the shareholder representative bodies. The Remuneration Committee was pleased with the support most of our largest shareholders gave to our original proposals, in particular the understanding of our rationale for the main changes proposed.

Shareholder feedback received was carefully considered, in particular the feedback on the proposed Value Creation Plan. As a result of this consultation exercise, changes were made to the operation of the remuneration proposals in line with suggestions made by shareholders.

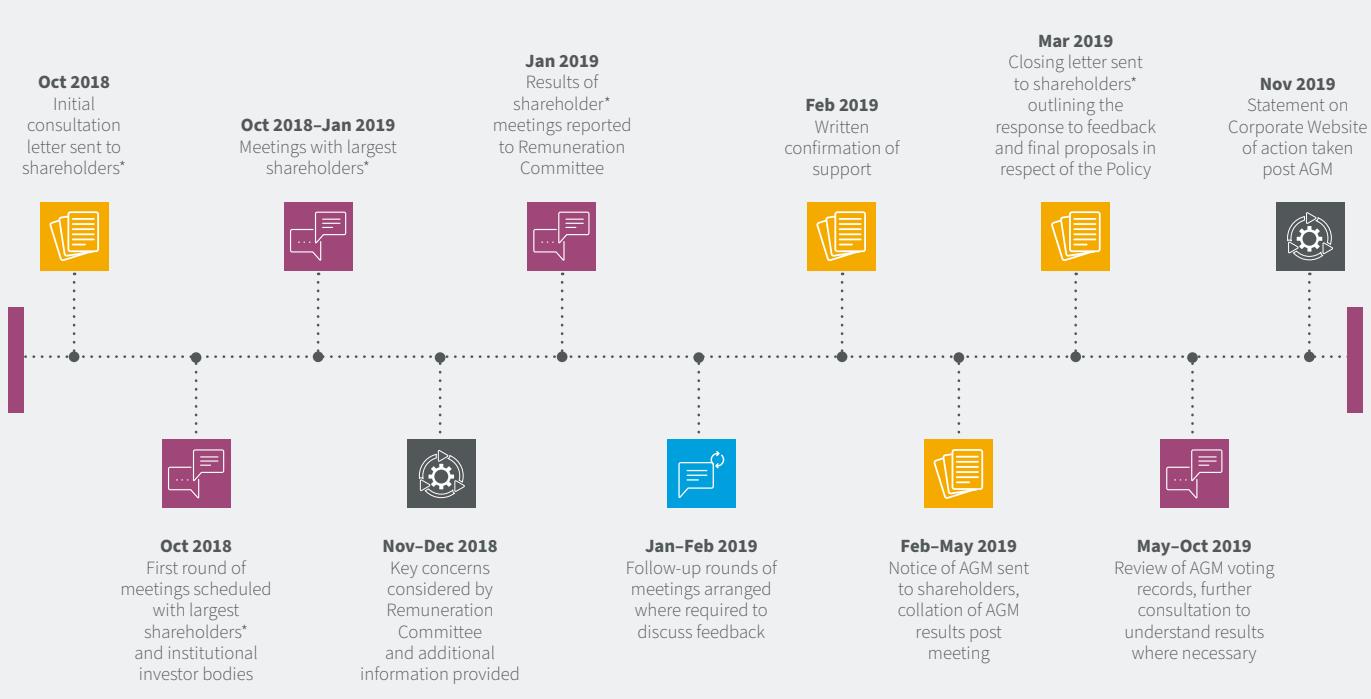
The Board believes that as a result of the consultation exercise it understands the reasons why some shareholders were not supportive of the remuneration proposals. The Board believes that the changes to the Remuneration Policy address the challenge of formulating incentive plans that drive exceptional and sustainable growth and reward short-term operational and strategic decisions, while motivating and retaining the Company's executive team, over the next stage of the Company's development.

In keeping with the Investment Association guidance, the Chairman of the Remuneration Committee wrote to our largest shareholders in November 2019 in response to this voting outcome. The update statement was also sent to the Investment Association and can be found on the Corporate Website, www.ocadogroup.com.

→ For further information on the shareholder consultation, see page 100

Shareholder* Consultation on Remuneration Policy

The chart below tables some of the interaction with shareholders on the Remuneration Policy.



*Top 20 largest shareholders plus ISS, IA and Glass Lewis



Corporate Governance Report

Continued

Creating the Ocado Retail Joint Venture

As explained in detail in the Strategic Report, during the year a new 50:50 joint venture was created with Marks and Spencer Holdings Ltd ("M&S") (the "Ocado Retail joint venture"). It comprises Ocado's UK grocery retail business, supported by a new partnership for solutions and other services and the provision of branding and product sourcing from M&S.

Board and Audit Committee Involvement with the Joint Venture

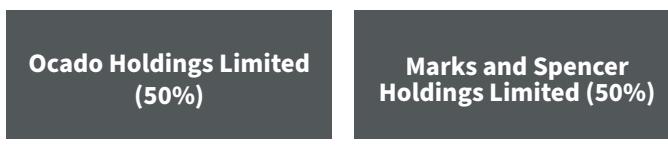
The decision and process that led to the Ocado Retail joint venture was a complicated one and the Board were active and engaged throughout demonstrating effective governance with its deal procedures. In considering the joint venture the Board paid particular attention to the Group's long-term strategic objectives, the expected benefits and risks of the joint venture. The Board, the Audit Committee and the deal team had specific roles, responsibilities and effective channels of communication, which ensured that a governance process was followed. This allowed for negotiations to progress efficiently and confidentially until such time as both parties were ready to announce the agreement.

→ For further information in the Audit Committee's role in reviewing the Ocado Retail joint venture, see the Audit Committee Report on pages 92 to 97

Ocado Retail Limited Governance Framework

In preparing for the Ocado Retail joint venture, a group consisting of the company secretary and legal teams from Ocado Retail and from the Company, worked together to ensure that the governance framework of Ocado Retail would be fit for purpose both at completion and in preparation for the financial year ahead. The governance framework for Ocado Retail was driven by core constitutional documents for the joint venture, notably the Ocado Retail shareholders agreement. It takes into account the Ocado Group governance framework and the relevant regulatory requirements. The framework includes the board and committee structure and considers the necessary support functions including finance, legal, risk and Internal Audit, needed for the joint venture.

Overarching Framework



Core Policies	Associated Processes and Procedures
Anti-Bribery and Money-Laundering Policy	<ul style="list-style-type: none"> • Compliance procedure • Gifts and hospitality register
Whistleblowing Policy	<ul style="list-style-type: none"> • Whistleblowing procedures guidance • Expolink platform
Share Dealing Code and Share Dealing Policy	<ul style="list-style-type: none"> • Procedures for share dealing • Insidertrack platform
Human Rights Policy, Responsible Sourcing and GSCOP	<ul style="list-style-type: none"> • Modern slavery and GSCOP compliance

Board and Committee composition

The Ocado Retail board is composed of six directors: Tim Steiner and Duncan Tatton-Brown, Ocado Group appointees; Steve Rowe and Stuart Machin, M&S appointees; and Ocado Retail's CEO and CFO, Melanie Smith and Niall McBride respectively. Tim Steiner is the chairman of the board.

Reporting to shareholders

Ocado Retail is responsible for its own day-to-day business operations. However, there are a number of reserved matters which Ocado Retail must seek approval from its shareholders before any action or decision can be taken. Certain of these reserved matters, for example approval of the business plan and appointment of the Chief Executive Officer for Ocado Retail, rest with Ocado if there is a disagreement between the shareholders. This process is documented in the Ocado Retail shareholders' agreement for which the Ocado Retail company secretary ensures compliance and communication with all shareholders.

The Chief Executive Officer of Ocado Retail attends the Board meetings of Group from time to time to update the Board on its trading performance and strategic matters.

Risk Management

Ocado Retail has mirrored the Group's risk management framework including risk management process for identifying, recording and monitoring risks.

The Ocado Retail legal function will have responsibility for implementing the risk management framework and processes, and developing Ocado Retail risk registers. It will periodically report to the Group on risk management and its key risks, which in turn inform the Group's principal risks statement.



Corporate Governance Statement 2019

Compliance with the UK Corporate Governance Code 2016

This Corporate Governance Statement explains how the Company applies the main principles and complies with all relevant provisions set out in the UK Corporate Governance Code 2016 issued by the Financial Reporting Council (the “Code”), as required by the Listing Rules of the Financial Conduct Authority, and meets other relevant requirements including provisions of the Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority.

The Corporate Governance Statement as required by the UK Financial Conduct Authority’s Disclosure Guidance and Transparency Rules (DTR 7.2.) forms part of the Directors’ Report, and has been prepared in accordance with the principles of the Code.

The Financial Reporting Council updated the UK Corporate Governance Code in July 2018 (the “2018 Code”). The 2018 Code applies to reporting periods beginning on or after 1 January 2019, and so does not apply to this reporting period. The Board has, where appropriate and feasible, adopted the new provisions in the 2018 Code earlier than required and provides disclosure on these requirements in this Annual Report.

A copy of the Code and further information on the 2018 Code can be found on the Financial Reporting Council’s website, www.frc.org.uk.

The following points outline key requirements under D.T.R.7.2, the content of which are covered in greater detail throughout the Annual Report for which we provide reference as follows:

- The Board and Committee composition can be found on pages 70, 88, 92 and 98.
- Board Diversity is discussed in the Corporate Governance Report on page 77 and in the Nomination Committee Report on pages 88 to 90.
- The Group’s risk management and internal control framework, and the Group’s principal risks and uncertainties are described on pages 48 to 52.
- The Directors’ Remuneration Report on pages 98 to 131.
- The Directors’ Report on pages 132 to 138.
- The Going Concern and Viability Statements on page 53 all contain information required to be included in this Corporate Governance Statement, and so are incorporated into this statement by reference.
- Charitable donations on page 57.

The terms of reference for each of the main Board Committees can be found on our Corporate Website, www.ocadogroup.com.

This Corporate Governance Statement 2019 covers the following areas:

- Board structure and composition;
- Leadership;
- The Board’s effectiveness;
- Accountability; and
- Relations with the Company’s shareholders and the AGM.

The Company’s obligation is to state whether it has complied with the relevant provisions of the Code, or to explain why it has not done so (up to the date of this Annual Report). The Company has applied the principles and complied with the provisions of the Code, except for provision D.2.2. Additional explanation is provided for the following provisions of the Code:

Code Provision	Area	Explanation
A.4.1	Senior Independent Director	The Company appointed Andrew Harrison as the Senior Independent Director part way through the period.
E.1.1	Senior Independent Director attending shareholder meetings	The SID has had significant communication with shareholders in relation to remuneration. Shareholder meetings have traditionally been attended by the Chairman and other members of the Board. Attendance at these meetings will be reviewed in light of the appointment of the SID during the year.
D.2.2	Senior management remuneration	As explained on page 102, the Remuneration Committee monitors, but has not as yet made recommendations concerning, the level and structure of remuneration for senior management of the Company other than the Executive Directors.



Corporate Governance Report

Continued

Corporate Governance Statement 2019 Continued

The Company aims to explain how its practices are consistent with the principle to which the particular provision relates, contributes to good governance and promotes the delivery of business objectives. The Company's disclosures on its application of the main principles in the Code can be found as follows:

Section	Principle	Section of Annual Report
+ LEADERSHIP	Every company should be headed by an effective board which is collectively responsible for the long-term success of the company.	Board of Directors, Composition of the Board
	There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.	Board Structure
	The chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role.	Board Structure
	As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy.	Board Structure, Board Responsibilities and Actions
+ EFFECTIVENESS	The board and its committees should have the appropriate combination of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.	Board of Directors, Director Biographies
	There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board.	Director Election
	All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively.	External Board Appointments and Conflicts
	All directors should receive an induction on joining the board and should regularly update and refresh their skills and knowledge.	Board Induction and Professional Development
	The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.	Information for Directors
	The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.	Review of Board Effectiveness
	All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance.	Director Election
+ ACCOUNTABILITY	The board should present a fair, balanced and understandable assessment of the company's position and prospects.	Strategic Report, How We Manage Our Risks and Emerging Risks, Going Concern Statement, Viability Statement, Corporate Governance Statement
	The board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems.	How We Manage Our Risks
	The board should establish formal and transparent arrangements for considering how they should apply the corporate reporting, risk management and internal control principles and for maintaining an appropriate relationship with the company's auditor.	Audit Committee Report



Section	Principle	Section of Annual Report
REMUNERATION	Executive directors' remuneration should be designed to promote the long-term success of the company. Performance-related elements should be transparent, stretching and rigorously applied.	Directors' Remuneration Report
	There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.	Directors' Remuneration Report
RELATIONS WITH SHAREHOLDERS	There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.	Engagement with Shareholders
	The board should use general meetings to communicate with investors and to encourage their participation.	Engagement with Shareholders

Certain parts of this Corporate Governance Statement have been reviewed by the Company's external auditor, Deloitte LLP, for compliance with the Code, to the extent required.

Board Approval of the Corporate Governance Statement

This separate Corporate Governance Statement is approved by the Board and signed on behalf of the Board by its Chairman and the Group General Counsel and Company Secretary.

Lord Rose

Chairman

11 February 2020

Neill Abrams

Group General Counsel and Company Secretary



Nomination Committee Report

“During the year, the Committee undertook a thorough review of the Board’s composition, succession plans and its diversity policy, refreshed its Terms of Reference and undertook a process to choose a new external Board evaluator.”

Lord Rose

Nomination Committee Chairman

**COMMITTEE MEMBERSHIP**

The membership of the Nomination Committee, together with the appointment dates, are set out below:

Lord Rose**Committee Chairman**

Appointed 11 March 2013* –
Present
Independent: No

Jörn Rausing

Appointed 9 March 2010* –
Present
Independent: Yes

Andrew Harrison

Appointed 1 March 2016* –
Present
Independent: Yes

Emma Lloyd

Appointed 1 December 2016* –
Present
Independent: Yes

Julie Southern

Appointed 1 September 2018* –
Present
Independent: Yes

John Martin

Appointed 1 June 2019* –
Present
Independent: Yes

Claudia Arney

Appointed 1 September 2019* –
Present
Independent: Yes

Doug McCallum

Retired
Appointed 3 October 2011* –
1 June 2019
Independent: Yes

Ruth Anderson

Retired
Appointed 9 March 2010* –
30 September 2019
Independent: Yes

Dear Shareholder

On behalf of the Board, I am pleased to present the report of the Nomination Committee for the 52 weeks ended 1 December 2019.

This has been a busy year for the Nomination Committee. As mentioned in last year’s report a number of changes to the Board were foreshadowed because Directors were approaching or had exceeded nine years on the Board.

In line with the above, during the year we have welcomed two new Non-Executive Directors to the Board. John Martin and Claudia Arney took up their positions on 1 June 2019 and 1 September 2019 respectively as independent Non-Executive Directors. As a Committee, we believe these appointments represent an excellent fit with Ocado Group’s current and future strategic needs.

I would like to thank Doug McCallum and Ruth Anderson following their stepping down from the Board for their dedication to their roles. During their tenure with Ocado, Doug served as Remuneration Committee Chairman until 2018 and Ruth chaired the Audit Committee until she stepped down from this position in April 2019.

During the year, the Committee undertook a thorough review of the Board’s composition, succession plans and its diversity policy, refreshed its Terms of Reference and undertook a process to choose a new external Board evaluator.

Please read on for more information about the work of the Committee during the year.

I will be available at the AGM to answer any questions about the work of the Nomination Committee.

Lord Rose

Nomination Committee Chairman
11 February 2020

→ For Committee attendance see the table on page 71

* Appointed to Committee



KEY RESPONSIBILITIES

- Review the structure, size and composition of the Board and its committees
- Give full consideration to succession planning for the Board and senior management
- Review the leadership needs of the organisation, both Executive and Non-Executive
- Identify and nominate potential candidates for Board vacancies as and when they arise, in line with its succession planning
- Evaluate the combination of skills, experience, independence, diversity and knowledge on the Board and its Committees
- Review and act upon the results of the Board performance evaluation process and assess how effectively members work together to achieve objectives
- Support workforce initiatives that promote a culture of inclusion and diversity

Membership

As required under the Terms of Reference, the Nomination Committee has seven members, the Chairman and the six independent Non-Executive Directors, and holds a minimum of two meetings a year. John Martin and Claudia Arney became members of the Nomination Committee on their appointments to the Board on 1 June 2019 and 1 September 2019 respectively. The biography of each member of the Nomination Committee is set out on page 73. Other attendees at Nomination Committee meetings include the Chief Executive Officer and the Group Chief People Officer. The Deputy Company Secretary is the secretary to the Committee.

How the Committee Spent its Time During the Year

The responsibilities of the Nomination Committee are set out in its Terms of Reference. The Nomination Committee has an annual work plan, developed from its Terms of Reference, whilst also dealing with specific issues as they arise predominantly relating to the appointment and succession planning of the Board and senior management, and also supporting the development of a diverse pipeline. The main matters that the Nomination Committee considered during the year are described below:

- recruitment process for two new NEDs, resulting in Claudia Arney's and John Martin's appointments to the Board;
- the process used in relation to appointments, its approach to succession planning and how both support developing a diverse pipeline;
- Andrew Harrison appointed as SID and DNED, including defining the role of the DNED;
- tender process for external Board evaluation consultants and discussing the results of the evaluation;
- senior management succession plans including the gender balance of those in senior management and their direct reports; and
- the policy on diversity and inclusion, its objectives and linkage to company strategy, how it has been implemented and progress on achieving the objectives.

Board Composition and Succession Planning

The Nomination Committee seeks to ensure that the Board's composition, and that of its Committees, is appropriate to discharge its duties effectively. During the year the Nomination Committee undertook a thorough review of the Board's composition. This review took into account various considerations including the tenure of Director, independence, diversity and ensuring a combination of Board knowledge, experience and skills. This review preceded the Board agreeing changes to the composition of the Board over the last 12 months, which included the appointments of John Martin and Claudia Arney as Non-Executive Directors with effect from 1 June 2019 and 1 September 2019 respectively. Andrew Harrison was appointed as Senior Independent Director and Designated Non-Executive Director for workforce engagement.

→ More information about the Board's composition, independence and effectiveness can be found on pages 76 to 79

The Nomination Committee continues to review Board composition to ensure that there is effective succession planning at Board level. This includes the review of a regularly updated skills matrix for all Directors, supported by a self-assessment analysis completed by each Director. As announced in the previous period, it was likely that changes would happen in the medium term, and these were undertaken, with two of the Company's longest-standing Directors stepping down. The Company also appointed a Senior Independent Director during the period, a role that had been vacant following the resignation of Alex Mahon.

As a result of the changes to the Board composition, there were also changes to the composition of the Board Committees during the period. Following Ruth Anderson's resignation, two new members, Emma Lloyd and John Martin, joined the Audit Committee during the period, taking total membership to four. The Remuneration Committee remained at three members, with Julie Southern and Claudia Arney replacing Doug McCallum and Ruth Anderson respectively. The Nomination Committee's membership also remained stable with John and Claudia replacing Doug and Ruth too.

In addition to reviewing Board composition, the Nomination Committee oversees the process of succession and management development for the Executive Directors and the next layer of management, the Management Committee. With regard to the development of the management team, two senior managers regularly attend the Board meetings to report on their respective business areas, while the Board has exposure to other senior managers who present or report to the Board on their business areas or particular projects. The Nomination Committee is mindful that it could improve the extent of its exposure to senior management and plans to expand on existing arrangements for building relationships between Non-Executive Directors and senior management outside of formal Board meetings.



Nomination Committee Report

Continued

Board Diversity

The Nomination Committee supports the importance of diversity and inclusion both in the boardroom and throughout the organisation, and understands that a diverse Board will offer wider perspectives, which lead to improved decision-making, enabling it to meet its responsibilities.

The Board's diversity policy considers a broad range of characteristics when considering diversity including age, disability, social and educational backgrounds, as well as gender and ethnicity. This policy includes a commitment to having a one-third female Board representation by the end of 2020 and a minimum of one non-white Board Director by the end of 2021, and to considering diversity principles throughout recruitment process at both Board and senior management level. At the end of the period, the Board had 25% female representation in line with the previous period. There was a slight decrease in female representation at the senior management level this period, from 36% to 31% owing largely to the creation of the Ocado Retail joint venture. The Board is committed not only to increasing the percentage of women and ethnically diverse individuals on the Board and senior management, but also to supporting initiatives throughout the workforce that foster a culture of inclusion and diversity. In this connection the Nomination Committee noted with approval the appointment of the Group's first Head of Diversity and Inclusion.

Any future appointments to the Board will continue to be based on merit and objective criteria to ensure that the best individuals are considered and appointed to the role. Wherever possible, the search pool will be widened and where executive search consultancy are used, Ocado will only engage with those firms that have adopted the "Voluntary Code of Conduct for Executive Search Firms". This includes Russell Reynolds, who were engaged to help the Company secure new Non-Executive Directors for the Group. The Nomination Committee monitors these objectives and will evaluate the balance of skills, experience, knowledge and diversity on the Board throughout the year.

→ For more information on diversity in respect of all the Group's employees, see the Our People section on pages 60 to 65

The Board participated in a process to identify their own cognitive diversity characteristics taking into account less tangible factors such as life experience and personal attitudes. The charts on page 77 illustrate these characteristics.

Annual Review

The Nomination Committee carried out a review of its Terms of Reference in the previous period, as mentioned in last year's report. The review reflected the 2018 Code's expanded remit for the Nomination Committee in relation to succession planning and promoting diversity.

→ The Nomination Committee's Terms of Reference can be found on the Corporate Website, www.ocadogroup.com



Audit Committee Report

“The Committee plays a valuable role in the Company’s governance framework, providing independent challenge and oversight across the Company’s financial reporting and internal control procedures.”

Julie Southern

Audit Committee Chairman



COMMITTEE MEMBERSHIP

The membership of the Audit Committee, together with the appointment dates, are set out below:

Julie Southern

Committee Chairman

Appointed 1 September 2018* – Present
Independent: Yes

John Martin

Appointed 1 June 2019* – Present
Independent: Yes

Emma Lloyd

Appointed 1 April 2019* – Present
Independent: Yes

Andrew Harrison

Appointed 1 March 2016* – Present
Independent: Yes

Ruth Anderson

Retired Committee Chairman

Appointed 9 March 2010* – 30 September 2019
Independent: Yes

➔ For Committee attendance see the table on page 71

* Appointed to Committee

Dear Shareholder

I am pleased to present the report of the Audit Committee for the 52 weeks ended 1 December 2019, my first such report as Chairman of the Audit Committee. The entire Committee gives thanks to Ruth Anderson who served the Committee as Chairman so proficiently from 2010 to her retirement as Chairman on 1 April 2019.

The Committee plays a valuable role in the Company’s governance framework, providing independent challenge and oversight across the Company’s financial reporting and internal control procedures. We work with other Committees and the Board to ensure that stakeholder interests are protected and the Company’s long-term strategy is supported.

There is no doubt that this has been a year of significant and rapid change for the Company. The transformation of the business has introduced additional complexity and created significantly more work, which has had a major impact on the Finance team; requiring them to take on new permanent responsibilities and also deliver a response to significant ‘exceptional’ activities. The exceptional activities include the creation of the Ocado Retail joint venture,

the Andover CFC fire and the expansion of Ocado Solutions and Ocado Ventures. The scale and pace of change has highlighted some weaknesses in the internal control environment present in the Company today that management recognise need to be addressed.

We have seen a Finance team that has been stretched to complete all that has been asked of it. The Company needs to grow this team and fill specific new senior specialist roles within the team in areas such as Treasury if the team is to meet the new demands that come from the transformation of the Group.

I am happy to report that management have taken swift action to grow and strengthen the Finance team and in turn help provide additional control rigour. There has been a high degree of professionalism in how the Finance team have responded to the challenges that have presented themselves during the period. Despite the challenges that the Finance team have faced, I am pleased to confirm that overall the control environment is satisfactory and provides a good foundation for evolution in 2020. The Committee looks forward to continuing to support the necessary changes and to seeing continued improvement in the coming year.

In this report, we aim to share some of the Committee’s discussions from the year, which have often focused on the many new accounting and reporting issues that have come about because of the significant change occurring in the business. This report details the significant accounting matters and issues in relation to the Group’s financial statements that the Committee has assessed during the year including the Ocado Retail joint venture accounting, the Andover CFC insurance claim and Ocado Solutions revenue recognition. In this report we explain why the issues were considered significant, which provides context for understanding the Group’s accounting policies and financial statements for the period.

This report also provides insight regarding the other roles of the Committee, including reviewing the effectiveness of the Group’s assurance functions.

Some of the responsibilities of the Committee changed during the course of the year as a result of the Ocado Retail joint venture, including the oversight of compliance with the GSCOP regime.

I will be available at the AGM to answer any questions about our work.

Julie Southern

Audit Committee Chairman
11 February 2020



KEY RESPONSIBILITIES

- Monitor the integrity of the financial statements of the Company and Group
- Review the Company's internal control and risk management systems – monitor and review the effectiveness of the Company's Internal Audit function
- Review the effectiveness of the external auditor process
- Develop and implement policies on the engagement of the external auditor to supply non-audit services
- Monitor and review the external auditor's independence and objectivity
- Fulfil its reporting obligations

Membership

As required under the Terms of Reference, the Audit Committee members are independent Non-Executive Directors and the Audit Committee has held seven meetings during the year. At least two members of the Audit Committee (Julie Southern and John Martin) are considered by the Board to have competence in accounting and all members have recent and relevant financial experience. John Martin and Julie Southern are chartered accountants with the Institute of Chartered Accountants in England and Wales. In line with the Code, the Audit Committee as a whole has competence relevant to the sectors in which the Company operates, notably the retail and technology sectors. The biography of each member of the Audit Committee is set out in the Corporate Governance Report on page 72. During the year, Ruth Anderson stepped down from the position of Chairman and was succeeded by Julie Southern with effect from 1 April 2019. John Martin and Emma Lloyd also joined the Audit Committee during the period increasing the membership to four members.

Meetings

The timing of meetings coincide with key intervals in the reporting and audit cycle for the Group. The Chairman of the Audit Committee reports at each Board meeting on the business conducted at the previous Audit Committee meeting, any recommendations made by the Audit Committee and the discharge of its responsibilities as set out in this report.

Regular attendees at the Audit Committee meetings include the Chief Financial Officer, the Group General Counsel and Company Secretary, the Finance and Risk Director, the Head of Internal Audit and the external auditor. Other attendees who attend as required include the Chief Executive Officer, the Chairman, a number of senior members of the Finance department, other members of senior management and operational teams and other advisers to the Company. The Deputy Company Secretary is the secretary to the Audit Committee.

How the Committee Spent its Time During the Year

The responsibilities of the Audit Committee are set out in its Terms of Reference. The Audit Committee has an annual work plan, developed from its Terms of Reference, with standing items that the Audit Committee considers at each meeting, in addition to areas of risk identified for detailed review and any matters that arise during the year. The main matters that the Audit Committee considered during the year are described below:

- Ocado Retail joint venture;
- Ocado Solutions accounting treatment;
- Andover CFC fire accounting;
- IFRS 16 adoption paper;
- accounting for new investments;

- viability and going concern paper;
- financial reporting process;
- segmental reporting;
- Governance, Risk and Compliance annual plan;
- GSCOP compliance report;
- cyber program update;
- review of auditor appointment policy;
- Internal Audit plan;
- non-audit work; and
- evaluation of committee paper.

Financial Statements and Reporting: The Audit Committee monitored the financial reporting processes for the Group, which included reviewing reports from, and discussing these with, the external auditor. As part of the year end reporting process the Audit Committee reviewed this Annual Report, a management report on accounting estimates and judgements, the external auditor's reports on internal controls, accounting and reporting matters, and management representation letters concerning accounting and reporting matters.

Monitoring the integrity of the financial statements of the Company, the financial reporting process and reviewing the significant accounting issues are key roles of the Audit Committee. The Board ensures this Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy and the Audit Committee plays an important role in assisting the Board in reaching those conclusions. For information concerning the process followed by the Company in preparing this Annual Report see page 82 of the Corporate Governance Report. The Audit Committee also monitors the financial reporting processes for the Group's half year report, which is a similar role to the one it carries out for full year reporting.

Accounting judgements and key sources of estimation uncertainty

uncertainty: The Audit Committee reviewed and discussed reports from management on accounting policies, current accounting issues and the key judgements and estimates in relation to this Annual Report. It assessed whether suitable accounting policies had been adopted and the reasonableness of the judgements and estimates that had been made by management. This section outlines those significant issues which received particular focus from the Audit Committee in relation to the financial statements for the period and how these issues were addressed.

Accounting for revenue: The Group adopted IFRS 15 – Revenue from Contracts with Customers, in the financial year ended 2 December 2018. The main area of impact of the standard on the Group is in respect of Solutions revenue. Revenue is not recognised until the customer is able to benefit from the services, and therefore no revenue is recognised in the early years of a Solutions contract until the services go live. During the course of the current financial year management have continued to report to the Audit Committee on technical aspects of the standard and their application to Group revenues. Each Solutions contract is assessed independently and management judgement is required on matters including contract life, the existence of a financing component or the creation of material rights for the customer. All of these factors impact the amount and timing of revenue recognised in the Income Statement and the value of contract liabilities included in the Balance Sheet and disclosed in the Notes to the Consolidated Financial Statements in Note 2.4.



Audit Committee Report

Continued

Accounting for leases: The Audit Committee reviewed the impact of the new standard IFRS 16 – Leases and has agreed with the management proposal to adopt this standard for the current financial year, using the modified retrospective approach. Under this new standard the majority of all leases will be reflected on the Balance Sheet recognising the right to use the asset for an agreed period of time and the associated liability for the future payments. The net impact of adopting IFRS 16 is an increase in EBITDA as previous operating lease expenses are no longer charged to administrative and distribution expenses. Operating lease expenses are replaced with depreciation and finance costs which fall outside the calculation of EBITDA. The prior year impact will be reflected in the opening reserves as at 3 December 2018 and comparative amounts are not restated.

The Group uses its incremental borrowing rate (“IBR”) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group would have to pay, which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the leases.

Management judgement is required during the transition to IFRS 16 relating to the likelihood of termination or extension of the lease agreement and selection of an appropriate discount factor to use to calculate lease liability. The Audit Committee have received reports from management on the impact of the transition and financial impact as disclosed in the notes in section 4.

→ See the Notes to the Consolidated Financial Statements on pages 156 to 207

Major Audit Committee Judgements and Estimates during the period

Area	Key Accounting Policies, Judgements and Key Sources of Estimation Uncertainty	Factors and Reasons Considered and Conclusion	Impact on Financial Information and Disclosure in Financial Statements
Revenue recognition	The accounting for Solutions contracts is complex. Key areas of management judgement include the timing of recognition of upfront and ongoing fees payable under the relevant contract.	The Audit Committee reviewed and agreed with management's proposed accounting treatment and policies, reviewing each Solutions customer individually in light of IFRS 15 guidance (including the underlying performance obligations and the identification of material rights under the contract).	The accounting treatment is included in the Consolidated Income Statement on page 151 and Note 2.1 to the Consolidated Financial Statements. The treatment is also described in Note 2.1.
Accounting for the Ocado Retail joint venture	The Ocado Retail joint venture, in which the Group holds 50% of the voting rights, required management to exercise judgement over whether the rights granted to Ocado under the Ocado Retail joint venture gives the Group control under IFRS 10.	The Audit Committee reviewed management's assessment that the Group retained control of the Ocado Retail joint venture. The shareholders agreement for the joint venture contains certain dispute resolution procedures in relation to approval of the business plan and appointment and removal of the Ocado Retail CEO, if there is a disagreement between the shareholders. The Audit Committee concurred with the assessment that the Group retained control.	The Ocado Retail joint venture is accounted for as a subsidiary and as such is consolidated fully in the financial statements of the Group. A Non-Controlling Interest is reported to reflect the fact that 50% of the ownership is held outside the Group. See Note 5.2 to the Consolidated Financial Statements.
Provisions for Contingent Liabilities and Contingent Assets	The implementation of the platform for each Solutions customer is a complex project. A typical Solutions contract includes a number of key milestones during the project implementation phase. Failure to achieve these key events can be subject to contractual financial penalties. Management judgement is required to review the progress of ongoing projects and determine whether there is a risk that Ocado will not meet the agreed key milestones and thus incur a financial penalty.	The Audit Committee considered the management report concerning the progress of all current Solutions projects in order to assess whether liabilities might arise for non-performance or delay. At the balance sheet date, it was concluded that there were no material risks to key milestones that would result in payment obligations by the Group and hence there were no contingent liabilities to disclose.	There is no impact to the financial statements and no additional disclosures required for the period. See Note 3.13 to the Consolidated Financial Statements.
Exceptional items	Management judgement was applied in order to treat certain one-off transactions as exceptional, including in respect of the Andover CFC fire, the disposal of Fabled and the sale of the 50% interest in Ocado Retail.	The Audit Committee considered the management reports on the accounting treatment of these one-off transactions as not ordinary course, and the clear disclosure of these items in the Group accounts.	See Note 2.7 to the Consolidated Financial Statements for the exceptional items disclosed, and the explanation on page 95.
Fair value of contingent consideration	A significant estimate concerns the contingent consideration payable to the Group in connection with the sale of Ocado Retail of up to £187.5 million. Management had to consider the likelihood of achieving the agreed performance targets linked to the deferred payment.	The Audit Committee discussed management's expectations regarding the achievement of the performance targets and concurred with management's conclusions that the full amount (as discounted) of the payment be recognised in view of the projections for the Retail business.	See Note 4.8 to the Consolidated Financial Statements for the fair value applied to the contingent consideration.
Share incentives	During the period, management judgement was applied to the valuation of various share schemes and in particular the share price volatility assumption applied to the new VCP incentive scheme.	The Audit Committee debated the management justifications for the assumed volatility applied for the VCP fair value including the supporting historical share price volatility and the resulting impact on the accounting treatment.	See Note 4.11 to the Consolidated Financial Statements for the fair value of incentive schemes including the VCP.



The previous table is not a complete list of all the Group's accounting issues, judgements, estimates and policies, but highlights the most significant ones for the period in the opinion of the Audit Committee. Accounting for the judgemental nature surrounding commercial income for the Retail business and the recognition of deferred tax assets are recurring issues for the Group, but did not require a significant change in the basis of the estimate or judgement during the period. The accounting treatment of all significant issues and judgements was subject to audit by the external auditor. For a discussion of the areas of particular audit focus by the external auditor, refer to pages 142 to 150 of the Independent Auditor's Report. The Audit Committee considers that the Company has adopted appropriate accounting policies and made appropriate estimates and judgements.

Andover Insurance Claim: The Group's financial results were impacted by the fire that destroyed the Andover customer fulfilment centre in February 2019. Management provided the Audit Committee with periodic updates during the year on the accounting treatment of insurance proceeds and costs including for loss of inventory and assets and the business interruption costs. The Audit Committee considered the appropriate accounting treatments and also the clear reporting of these amounts in the financial statements and external announcements.

Review of Ocado Retail Joint Venture: As explained on page 94, the Audit Committee was required to consider the Ocado Retail joint venture transaction during the negotiation phase, and in doing so reviewed the financial information and working capital report and the financial procedures report presented by management, in support of the Class 1 transaction. The Audit Committee forms part of the Company's governance reviews and challenges the reporting disclosures and new internal control framework for the joint venture. In particular the Audit Committee considered the roles that would be played in the joint venture, when established, by the external auditors, Internal Audit and the Ocado Retail audit committee in providing oversight and assurance with respect to Ocado Retail's new financial reporting and internal control framework. The Ocado Retail audit committee will assist the Ocado Retail board to:

- oversee integrity of Ocado Retail's financial statements;
- oversee effectiveness of Ocado Retail's internal controls and risk management; and
- review reports of internal audit and the external auditors.

The Ocado Retail audit committee will also oversee Ocado Retail's compliance with GSCOP and approve the annual compliance report. Reports for Ocado Retail including internal audit reports and external audit reports are provided to the Group Audit Committee.

Segmental Reporting: Following the Ocado Retail joint venture, management reconsidered how they manage, plan and report the performance of the business internally. Subsequently, this has led to a change in the Group's reporting segments from three to four. Management prepared and presented an analysis of this change to the Audit Committee who provided important challenge on the methodology used by management for segmenting the business and the disclosure to be provided to shareholders including financial statement information and key performance indicators.

Going Concern and Viability Assessments: The Audit Committee and the Board reviewed the Group's going concern and viability statements (as set out on page 53) and the assessment reports prepared by management in support of such statements. The report on the viability statement included updated downside scenarios in light of the expansion of the Solutions business including the impact of delays. The Audit Committee gave careful consideration to the period of assessment used for the viability statement. It took into account a wide range of factors (as set out on page 53) and concluded the time period of three years remained appropriate. The external auditor discussed the statements with management and approved of the conclusions reached by management regarding concern and viability.

Tax Review: The Board reviewed and approved the Group's tax strategy and related statement, which was published during the year.

Risk and Internal Control Review: The Board has ultimate responsibility for effective management of risk for the Group including determining its risk appetite, identifying key strategic and emerging risks, and reviewing the risk management and internal control framework. The Audit Committee, in supporting the Board to assess the effectiveness of risk management and internal control processes, relies on a number of different sources to carry out its work including Internal Audit assurance reports, the assurance provided by the external auditor and other third parties in specific risk areas, and an annual assessment report provided by Governance, Risk and Compliance. In addition, the Audit Committee Chairman gains additional insight on the management of risk in Ocado, by attending the Group's regular Risk Committee meetings. The Risk Committee, which is chaired by the Group General Counsel and Company Secretary, receives reports from the business on a range of risk topics and discusses principal risks and risk appetite.

As outlined from page 92, the Audit Committee and the Board have given consideration to the effectiveness of the Group's system of internal control and risk management and noted that improvements are required to the Group's underlying control environment. During the period, the Group underwent significant transformation, introducing significant complexity and placing substantial pressure on the Finance team. The Audit Committee noted that a range of exceptional activities including the separation of the Ocado Retail joint venture and expansion of the Solutions business internationally has meant that particular focus has been placed at year-end on the rigour applied to and oversight of controls during this exceptional period. Additional support processes had been created across a range of areas to support the expansion of the business, including payroll, financial reporting systems, expense claims and tax. The Audit Committee received reports from the external auditors regarding the additional audit work carried out by the external auditors for the financial year-end to address the control concerns identified. As well as these additional procedures, management reported on the steps taken by the business to respond to the areas of potential risk. Management outlined its initial proposals to broaden and strengthen the Finance team to address this additional complexity and to help support the creation of an improved internal control environment for the Group. Management will report periodically to the Audit Committee in 2020 on their improvement plans and proposals for expanding the Finance team. The Audit Committee will monitor improvement plans and progress and ensure that necessary action is taken.

Audit Committee Report

Continued

As well as considering internal control system effectiveness, the Board and the Audit Committee discussed the changing risk landscape for the business as a result of the international expansion of the Solutions business. Because of the transformation of the business, the Board recognised that the Group's principal risks and uncertainties were shifting towards the Solutions business. New principal risks were emerging such as the challenges of creating a global supply chain of equipment for the Solutions platform and the increased importance of improving and expanding the Group's engineering and technology capabilities. The Board discussed and reviewed the Group's risk appetite when reviewing the principal risks and the strategy for the Group while the Audit Committee reviewed principal risks when considering the effectiveness of the risk management system.

Every year the Audit Committee focuses on particular risk areas identified in the Group risk register. During the period, management reported on the Group's information security controls and assurance plans for the existing information technology systems and the programme for compliance with GSCOP. The Group has taken a number of steps to develop its readiness for Service Organisation Control ("SOC") assessments for the Group's new Ocado Solutions platform security and privacy internal control systems. Internal Audit has regularly reported to the Audit Committee on the readiness programme including the introduction of a SOC steering group and SOC programme manager to oversee the programme, preparation of a tender for a SOC auditor role and an externally facilitated review of the Group's current SOC control catalogue. The Audit Committee have discussed progress made with the programme and considered the risks identified in reviews of the existing control framework.

→ Further details of the risk review and the Group's risk management and internal control systems, including financial controls, are set out in the "How We Manage Our Risks" section on pages 48 to 52

Internal Audit: Part of the assurance provided to the Audit Committee when reviewing the effectiveness of the Group's systems of internal control comes from Internal Audit. The Audit Committee reviewed the Internal Audit plan, resourcing and prioritisation in January 2019 and considered it appropriate to the Group having regard to the emerging and principal risks of the business.

The Internal Audit plan, which is risk-based, sets out a number of audit activities for the 2019 Financial Year, including key assurance reviews, most notably the work on the Solutions platform security and privacy internal control system. Additional support was given by external consultants to review the Group's security and privacy controls for the Solutions platform. The audit plan also included audits for key financial and operational risk areas such as the Group's operational health, safety and environment function, its technology procurement control environment, distribution, transport and logistics function and the control design for planning and analytics function.

Internal Audit reports to each Audit Committee meeting. The report from Internal Audit enables the Audit Committee to discuss key findings, plans to address areas of weakness, and plans by management to address actions. Management actions are tracked and the status of these actions is reported alongside progress against the Internal Audit plan.

The Audit Committee is satisfied that the Internal Audit plan provides appropriate assurance on the controls in place to manage the principal risks facing the Group.

Internal Audit Effectiveness Review:

1

A questionnaire was completed by members of management and business operations, the Audit Committee members and the external auditor, as well as a self-assessment by the Head of Internal Audit. The assessment questionnaire asked questions to assess performance in a range of areas including planning and work programme, communication, reporting and performance.

→ 2

The results of the questionnaire were reviewed by the Audit Committee and Internal Audit.

→ 3

Informal feedback from management and the external auditor was considered during the period.

Result of Review:

The Audit Committee concluded that the Internal Audit function was effective.

Internal Audit Effectiveness Review: As noted above, Internal Audit is subject to an effectiveness review each year. Using this assessment process outlined, the Audit Committee concluded the Internal Audit function was effective. During the period, the Audit Committee met with the Head of Internal Audit, without management present. Internal Audit will be subject to an external review in the 2020 financial year.

External Audit Effectiveness Review:

1

The Audit Committee, the executive team, and members of management from across the Company completed an external audit effectiveness review questionnaire at the end of the period. The questionnaire asked respondents to consider the robustness of the audit process and the quality of delivery, reporting, people and service.

→ 2

The Audit Committee reviewed the results of the questionnaire, in addition to meeting with management, without Deloitte present, to listen to views on the effectiveness of the external auditor.

→

Result of Review:

The Audit Committee concluded that Deloitte delivered a robust and quality audit, with effective challenge and providing the appropriate resources to the Company in the period and that therefore Deloitte had remained effective in their role.



Assessing the Effectiveness of the External Audit Process and the External Auditor

It is important to the Audit Committee that the annual external audit plan is consistent with the scope of the audit engagement. As noted on the previous page, the Audit Committee reviewed and approved the external audit plan. As part of the review of the audit plan, the Audit Committee considered certain significant and elevated risk areas, identified by the external auditors, which might give rise to material financial reporting errors or those perceived to be of higher risk thereby requiring further audit attention. These risk areas include those set out in the Independent Auditor's Report on page 142. The Audit Committee also considered the audit scope and materiality threshold.

The Audit Committee met with the external auditors at various stages throughout the period, including without management present, and discussed the remit and any issues arising from the work of the auditor.

Independence and Objectivity: The Audit Committee considered the safeguards in place to protect the external auditor's independence. The external auditors reported to the Audit Committee that it had considered its independence in relation to the audit and confirmed to the Audit Committee that it complies with UK regulatory and professional requirements and that its objectivity is not compromised. The Audit Committee took this into account when considering the external auditor's independence and concluded that Deloitte remained independent and objective in relation to the audit.

Non-Audit Work Carried Out by the External Auditor: To help protect auditor objectivity and independence, the provision of any non-audit services provided by the external auditor requires prior approval, as set out in the table below. These thresholds are unchanged.

Approval Thresholds for Non-Audit Work	Approver
Over £10,000 and up to £30,000 per engagement	Chief Financial Officer
Over £30,000 and up to £100,000 per engagement	Chief Financial Officer and Audit Committee Chairman
Greater than £100,000 per engagement, or if the value of non-audit fees to audit fees reaches a ratio of 1:2 as a result of a new engagement, regardless of value	Audit Committee

An additional protection is provided by way of a non-audit services fee cap. The Audit Committee (or the Company) may not approve an engagement of the external auditor if annual non-audit services fees would exceed 70% of the average audit fees (not including fees for audit-related services or for services required by regulation) charged in the previous three years. Certain types of non-audit service are of sufficiently low risk so as not to require the prior approval of the Audit Committee, such as "audit-related services" including the review of interim financial information. "Prohibited services" are those that have the potential to conflict directly with the auditor's role, such as the preparation of the Company's financial statements.

Non-Audit Work Undertaken During the Period: The total of non-audit fees, audit fees and audit-related services fees paid to the external auditor during the period is set out in Note 2.5 to the Consolidated Financial Statements on page 168. The non-audit service fees of £415,000 (2018: £39,000) paid to Deloitte during the period related to £50,000 paid for audit-related assurance services for an interim review and £335,000 in connection with public reporting responsibilities and other permissible services in relation to the establishment of the Ocado Retail joint venture, of which £70,000 is for transaction support services required by regulation. All non-audit work engagements were approved by the Chief Financial Officer and Audit Committee Chairman as the fees concerned were within the approval thresholds set under the policy.

The Audit Committee received a regular report from management regarding the extent of non-audit services performed by the external auditor. The external auditors provided a report to the Audit Committee on the specific safeguards put in place for each piece of non-audit work confirming that it was satisfied that neither the extent of the non-audit services provided nor the size of the fees charged had any impact on its independence as statutory auditor. It was concluded that appropriate safeguards were in place to prevent a compromise of auditor independence. The Audit Committee was satisfied this was the case and so concluded that the auditor's independence from the Group was not compromised.

Audit Fees: The Audit Committee was satisfied that the level of audit fees payable in respect of the audit services provided (excluding audit-related services) being £868,000 (2018: £456,000) was appropriate and that an effective audit could be conducted for such a fee. The Audit Committee noted the significant year-on-year increase in audit fees was consistent with the additional audit work done by the external auditors in connection with the additional complexity for the Group for 2019. The existing authority for the Audit Committee to determine the current remuneration of the external auditor is derived from the shareholder approval granted at the Company's annual general meeting in 2019. At the 2019 annual general meeting, 100% of votes cast by shareholders were in favour of granting the Directors this authority.

Statement of Compliance with the Competition and Markets Authority (CMA) Order

The Company confirms that it has complied with The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Processes and Audit Committee Responsibilities) Order 2014 (Article 7.1), including with respect to the Audit Committee's responsibilities for agreeing the audit scope and fees and authorising non-audit services.



Directors' Remuneration Report

"The Remuneration Committee is committed to ensuring the Company's leadership is motivated to deliver longer-term sustainable growth for shareholders."

Andrew Harrison

Remuneration Committee Chairman



COMMITTEE MEMBERSHIP

The membership of the Remuneration Committee, together with the appointment dates, are set out below:

Andrew Harrison

Committee Chairman

Appointed 1 March 2016* –
Present
Independent: Yes

Doug McCallum

Retired Committee Chairman

Appointed 3 October 2011* –
1 June 2019
Independent: Yes

Claudia Arney

Appointed 1 September 2019* –
– Present
Independent: Yes

Ruth Anderson

Retired

Appointed 9 March 2010* –
30 September 2019
Independent: Yes

Julie Southern

Appointed 1 June 2019* –
Present
Independent: Yes

→ For Committee attendance see the table on page 71

Letter from the Chairman of the Remuneration Committee

Dear Shareholder

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for 2019.

The tremendous success that our business has seen over the last two years has changed our business entirely in terms of complexity, reach and scale. This Director's Remuneration Report reflects this success and should be taken in light of this transformation.

The performance of the Group saw continued growth in the Retail business; in particular our 50:50 joint venture with M&S will enable us to continue to transform online grocery retail and provides a firm base from which we can continue to grow the Solutions business and innovate. In addition, we have seen steady improvement in the efficiency of OSP and a very rapid expansion of the Solutions business, with the Group having signed its sixth and seventh international agreements to develop OSP in Australia and Japan this year. The Group achieved strong gross sales and customer growth for the 52 weeks ended 1 December 2019. Shareholders benefitted from the strong growth of the Group, with the share price having increased 265% since December 2017.

The Remuneration Committee is committed to ensuring the Company's leadership is motivated to deliver both longer-term sustainable growth for shareholders whilst simultaneously upholding the core pillars of our responsible business. As our business has grown in size, so have our responsibilities, and to ensure we continue to achieve inspiring, tangible results for both our Company and the communities we interact with, we have built our responsible business around these four core pillars: Education, Entrepreneurship, the Environment and Eating well. The Remuneration Committee is dedicated to ensuring that remuneration outcomes reflect all the above elements of corporate strategic performance and strategy.

* Appointed to Committee



Relationship Between Pay and Performance

2019 Annual Incentive Plan (“AIP”)

We have approved a bonus payment to the Executive Directors based on 55% to 58.5% achievement against objectives under the AIP for the period.

→ More detail about the AIP can be found on pages 121 to 123

We did not exercise any discretion to depart from the formulaic outcome for the AIP for this year on the basis that this reflected our view of the underlying performance of the business over the financial year.

2017 Long Term Incentive Plan (“LTIP”) Vesting

During the period, we reviewed the performance against the 2017 LTIP award targets, which had a performance period ending on 1 December 2019. The 2017 LTIP awards were subject to the achievement of targets relating to Ocado Group and Ocado Retail’s performance, including the Retail business revenue and EBITDA and the Solutions business revenue for OSP. Based on the results to the end of the performance period, the Directors achieved 46.1% against the objectives under the LTIP for the period. The 2017 LTIP awards are expected to vest in March 2020.

→ More detail about the LTIP vesting can be found on page 123

We did not adjust the awards to take into account share price growth over the period; on the basis that this reflected our view of the underlying performance of the business over the performance period. The Committee exercised discretion to prorate the targets under the Platform Operating Efficiency measure to reflect the impact of the fire at the Andover CFC. The efficiency of this CFC was assessed just prior to the fire, against the prorated targets as at that point in time, on the basis that a sufficient proportion of the performance period had passed and the Committee was comfortable that the trajectory of improvement to this point would have continued to the end of the performance period. In this way, in line with our Directors’ Remuneration Policy and plan rules, the Committee was satisfied that the amended targets were equally difficult to satisfy as the original condition would have been had such circumstances not arisen.

Growth Incentive Plan (“GIP”) Vesting

In 2014, the Remuneration Committee implemented a one-off five-year GIP to incentivise a focus on the key strategic drivers and delivery of exceptional growth and shareholder returns over the long-term. The GIP was approved by shareholders at the 2014 annual general meeting with vesting due in May 2019, subject to the share price growth relative to the FTSE 100 performance condition being met over this five-year period.

In order for full vesting to be achieved, Ocado’s share price growth had to exceed the growth of the FTSE 100 by 20% p.a. Over the period, Ocado’s share price growth was 31.02% p.a. compared to 1.79% p.a. for the FTSE 100. On this basis, 100% of the GIP vested. The Remuneration Committee was satisfied that the outcomes under the GIP reflect the intended purpose of it when it was first implemented, delivering above-market pay-outs only for outstanding results. Therefore, the Remuneration Committee did not amend the outcome or make any adjustments.

The following table shows the absolute value of the total shareholder returns for shareholders over the performance period compared to the value received by the Executive Directors who participated in the GIP:

Returns				
Shareholders			£7,476,000,000	
CEO	CFO	COO	CEO Ocado Solutions	Group General Counsel & Company Secretary
£54m	£14m	£14m	£6m	Did not participate

Clearly this will mean that the single figures of our Executive Directors will be significantly higher this year, reflecting the outcomes under this plan.

→ Further detail on single figures can be found on page 107

2016 Sharesave Scheme Vesting

As a result of Ocado’s substantial share price growth, the Committee is pleased to announce that vesting under the 2016 Sharesave Scheme has been incredibly successful. Participation under the 2016 offer was 15% across the workforce, with average profits of £31,940 earned by those who participated in the scheme.

163 employees, including the Executive Directors, participated at the maximum level and earned £104,596 each. The Remuneration Committee continues to believe that the Sharesave Scheme is very valuable, encourages employee engagement and enables employees to share in the long-term success of the Group.

Pensions

The Remuneration Committee is very aware of the focus on Executive Director pensions. Given the change in the Group’s headcount over the year and in order to continue to be in line with the 2018 Code, Executive Director pension contribution levels are being changed to 7% of salary in the 2020 financial year to ensure continued alignment with the levels received by the wider workforce.

Base Salaries

In light of Ocado’s substantial growth over the past two years, resulting in the Company establishing itself as a firm constituent of the FTSE 100, the Remuneration Committee decided to undertake a review of base salaries to ensure that they accurately reflected the enhanced scale and complexity of the Executive Directors’ roles. The review focused on many factors including business performance, total remuneration, market data for comparable organisations and roles as well as individual performance. The Committee concluded that the significant growth in scale and complexity of the business warranted increases to the Executive Directors’ salaries. Furthermore, it was determined that the increases would be awarded in two steps, with the second increase subject to continued strong individual performance and the Company remaining in the FTSE 100. The resulting salaries (after both increases) position the Executive Directors around the lower quartile of FTSE 100 equivalent roles.

In addition, the Company is continuing with its historic approach of awarding the same salaries and increases to three of its Executive Directors, with this approach being extended to the Group General Counsel and Company Secretary role for the first time. It was felt that a differentiation in salary in this role was no longer warranted,



Directors' Remuneration Report

Continued

and that the Group General Counsel and Company Secretary role remains integral to Ocado's future success, involving the legal support on additional Ocado Solutions deals and the execution of existing Ocado Solutions deals (including international corporate structure and regulatory compliance), as well as support on negotiations with existing partners. In order to bring the Group General Counsel and Company Secretary's salary into line with the other Executive Directors, a more substantial increase was required in 2019.

The Committee recognises that these increases are above the "normal" percentage range for other UK-based monthly paid employees, however the increases were considered necessary to ensure Executive Directors are commensurately rewarded for their stewardship of a FTSE 100 company in a competitive environment.

→ Please see page 113 for further information on salary increases

Overall Positioning of Remuneration

The aforementioned salary increases reflect our intention last year as a Committee to design a new policy whereby the fixed elements (salary, benefits and pension) would be lower quartile compared to the FTSE 100, with the new Annual Incentive Plan, if the target is earned, still resulting in a below-market positioning. The above salary changes are consistent with this approach.

Our intention was that the remuneration package provided to our Executive Directors would only result in substantial comparative reward for transformational performance. This is why the minimum hurdle on our long term incentive plan, the Value Creation Plan ("VCP"), which has to be achieved before any value starts to be earned by the Executive Directors, was set at a 10% Total Shareholder Return ("TSR") Compound Annual Growth Rate, which for this period would require a share price of £15.16.

Shareholder Consultation and 2019

Annual General Meeting Voting

The Board recognises that at our 2019 annual general meeting all resolutions were successfully passed with the requisite majority, although there was a significant minority vote against four remuneration-related resolutions: Resolution 2 (the Directors' Remuneration Policy), Resolution 3 (the Directors' Remuneration Report), Resolution 19 (the Ocado Value Creation Plan) and Resolution 23 (the amendments to the Chairman's Share Matching Award). The Remuneration Committee notes that the Company was aware, prior to voting, of the above concerns of shareholders due to the extensive shareholder consultation process that was conducted prior to the issue of the notice of the 2019 annual general meeting. The Remuneration Committee is, however, encouraged by the support of the majority of its shareholders and their understanding of the strategic rationale behind the Policy changes. The Remuneration Committee also believes its remuneration proposals continue to be appropriate to incentivise and retain a highly entrepreneurial executive team over the next stage of the Company's development. The Company remains committed to governance best practice and will continue its policy of continually keeping remuneration under review and proactively engaging with shareholders and advisory bodies on such matters.

→ Further details on our response to the 2019 annual general meeting voting outcomes are included on page 130

Changes to the Implementation of the Policy in 2020

This year marked the first year of the operation of our new Remuneration Policy. We do not intend to make any material changes to its implementation in 2020. Our intention to increase salaries for 2020 is set out on page 113 along with our rationale for doing so.

In addition, the Committee is reviewing the performance conditions for the AIP in 2020. Historically the AIP has had four measures based on targets around Retail Revenue, Retail Profitability, Solutions Commitments and operational and strategic objectives, which are assessed over a 12 month performance period.

No changes to the AIP structure are proposed. In order to ensure that the bonus remains aligned to the business strategy and achievement of significant business goals, the Remuneration Committee has proposed to expand the AIP to five measures. These would be based around Solutions commitments, Retail EBITDA, Erith CFC capacity, OSP features and operational and strategic objectives, and to be assessed over a 12 month performance period.

Pay-outs under the AIP are subject to a mandatory deferral of at least half of any AIP award into shares. The maximum amount of any bonus that can be paid in cash is 100% of salary. Shares vest after three years but are subject to a further two-year holding period, during which time they cannot be sold.

Changes to Non-Executive Director Remuneration

Changes to fees for the Non-Executive Directors were also agreed in 2019 including the Chairman's fee, Non-Executive Director ("NED") base fees and Committee Chairman fees (effective 1 April 2019). The Remuneration Committee (in the case of the Chairman fees) and the Executive Directors and Chairman (in the case of the Non-Executive Director fees) recognise that these increases are above the "normal" percentage, but the increases were made to reflect the growing complexity of the Ocado business and subsequent responsibilities, workload and time commitment required from the Chairman and the Non-Executive Directors.

→ Please see page 120 for further information on NED fees

Executive Remuneration and the Broader Context

Ocado is an organisation where diversity is valued, and we seek to grow and innovate by using and nurturing our workforce's talents and expertise. The Company is committed to hiring and developing our people in accordance with our Equal Opportunities Policy. We want to have the right people with a common focus on delivering our strategy whilst demonstrating our Ocado values. The Company ensures that promotion and recruitment is fair and objective and that all of our people are rewarded justly and competitively for their valued contribution to our achievements. When making decisions on executive remuneration, the Remuneration Committee references a number of factors related to the wider workforce, including the all-employee remuneration report.

→ Further details on workforce remuneration can be found on page 116

I will be available at the AGM to answer any questions about the work of the Remuneration Committee.

Andrew Harrison

Remuneration Committee Chairman
11 February 2020



Description of the Remuneration Committee

This section of the Directors' Remuneration Report describes the membership of the Remuneration Committee, its advisers and principal activities during the period. It forms part of the Annual Report on Remuneration section of the Directors' Remuneration Report.

As required under the Terms of Reference, the Remuneration Committee has three members, all of whom are independent Non-Executive Directors, and holds a minimum of two meetings a year.

Other attendees at the Remuneration Committee meetings included the Chairman of the Board, the Chief Executive Officer, the Chief Financial Officer, the Group Chief People Officer and the external adviser to the Remuneration Committee. The Chairman, Executive Directors and other attendees are not involved in any decisions of the Remuneration Committee and are not present at any discussions regarding their own remuneration. The Deputy Company Secretary is secretary to the Remuneration Committee.

External Advice

During the period, the Remuneration Committee and the Company retained independent external advisers to assist them on various aspects of the Company's remuneration and share schemes as set out below:

Adviser	PricewaterhouseCoopers LLP
Retained by	Remuneration Committee
Services Provided to the Remuneration Committee	Advice on a range of remuneration issues including attendance at Remuneration Committee meetings, information on market practice in relation to various aspects of remuneration, market trends and benchmarking of Executive Director remuneration.
Other Services Provided by PwC	Other PwC advisory teams advised the Group on a range of matters during the period including internal controls, risk management, cyber security, accounting and translation advice.

PricewaterhouseCoopers LLP Reappointment and Review

The Remuneration Committee considered the reappointment of PricewaterhouseCoopers LLP ("PwC"). This review took into account PwC's effectiveness, independence, period of appointment and fees. PwC were initially appointed by the Remuneration Committee in 2017 following a tender process and were reappointed in 2019.

The Remuneration Committee reviewed the performance of PwC based on feedback from members of the Remuneration Committee and senior management. The criteria for assessing their effectiveness included their understanding of business issues and risks, their knowledge and expertise, and their ability to manage expectations. The Remuneration Committee concluded that the performance of PwC remained effective.

The Remuneration Committee considered the independence and objectivity of PwC. PwC have provided assurances to the Remuneration Committee that they have effective internal processes in place to ensure that they are able to provide remuneration consultancy services independently and objectively. PwC confirmed to the Company that they are a member of the Remuneration Consultants Group and as such operate under the code of conduct in relation to executive remuneration consulting in the UK. The Remuneration Committee is, following its annual review, satisfied that PwC have continued to maintain independence and objectivity.

For the period, £127,600 (2018: £161,833) in fees were paid or payable to PwC for advisory services provided to the Remuneration Committee. The basis for this is a fixed retainer fee and a time-based fee for additional work.

Following the review by the Remuneration Committee, it was agreed that PwC should be reappointed.

Other Support for the Remuneration Committee

In addition to the external advice received, the Remuneration Committee consulted and received reports from the Company's Chief Executive Officer, the Chief Financial Officer, the Chairman, the Group Chief People Officer and the Deputy Company Secretary. The Remuneration Committee is mindful of the need to recognise and manage conflicts of interest when receiving views and reports from, or consulting with, the Executive Directors or members of senior management.



Directors' Remuneration Report

Continued

How the Committee Spent its Time in 2019

The Remuneration Committee has, under its Terms of Reference, been delegated responsibility for setting remuneration for all of the Executive Directors, the Chairman and the Company Secretary. In line with its Terms of Reference, the Remuneration Committee's work during the period is set out below:

Key agenda items

- Approving changes regarding remuneration in light of the 2018 Code.
- Approving the 2019 Directors' Remuneration Policy and Directors' Remuneration Report for FY18.
- Approving the annual general meeting explanatory notices and incentive plan rules.
- Receiving a report on output from shareholder consultation meetings in November 2018.
- Receiving a report from the CEO and Chairman on performance and remuneration of the Executive Directors.
- Approving the FY19 AIP performance targets and reviewing the design/measures for the FY20 AIP.
- Receiving a report on Director performance and/or pay (Executive Director, Non-Executive Director and Chairman).
- Approving the Executive Director and Chairman pay increases.
- Reviewing performance under the FY18 AIP and consideration of any bonuses payable.
- Reviewing performance and approving payments under the FY16 and FY17 LTIP awards.
- Review of Committee composition, Terms of Reference and performance.
- Receiving reports and advice from advisers on a range of matters including senior executive pay, market themes and trends and new governance requirements.
- Receiving a report on shareholder feedback on the FY18 annual report and 2019 annual general meeting.
- Receiving a report on Group-wide and management remuneration for FY19.
- Reviewing a proposal for new international share schemes.
- Receiving a report on the Group's share scheme and plans for FY20.
- Reviewing the performance of advisers.
- Approving the VCP awards to management.
- Approving the GIP vesting.
- Various senior management arrangements on joining and leaving the Company.

In line with the 2018 Code, the Remuneration Committee's work now includes monitoring and considering the level and structure of remuneration for the Management Committee (previously this was the responsibility of the Chief Executive Officer). The Executive Directors and the Chairman reviewed the remuneration arrangements of the Non-Executive Directors.





Directors' Remuneration Report

Continued



REMUNERATION AT A GLANCE

Key Business Outcomes



¹ Presented on the previous segmental reporting basis in place when the targets were set.

² Solutions revenue as measured under pre-IFRS 15 accounting standard in place when the targets were set.

Key

Salary

Benefits

Pension

Shareholding

AIP

LTIP

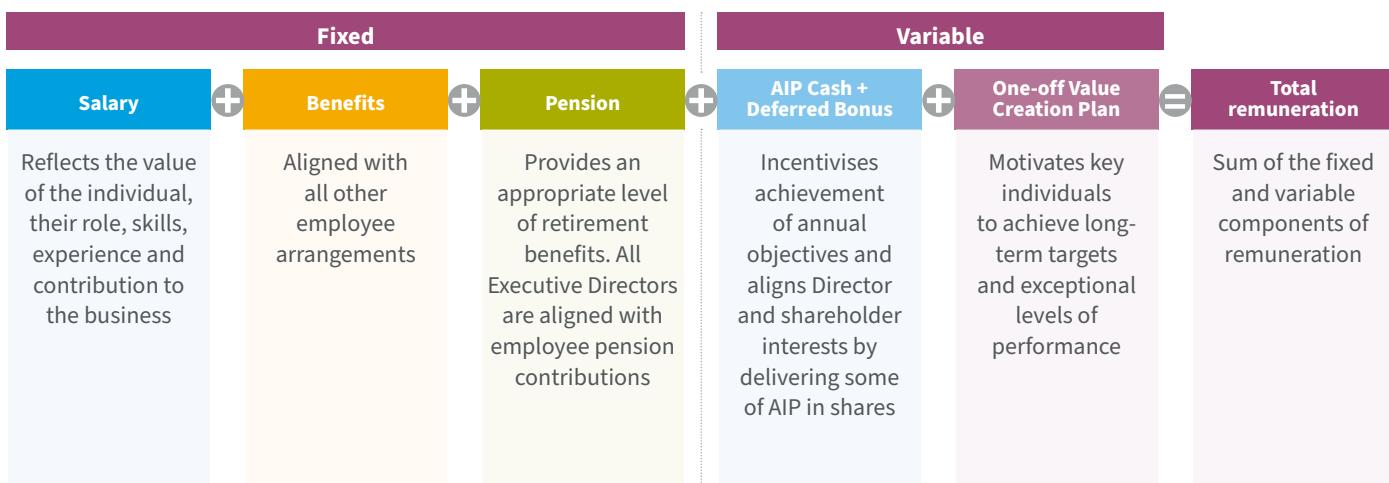
VCP

GIP

EXECUTIVE PAY AT OCADO

The Components of Remuneration

The different components of remuneration in this report are colour coded as follows:



Our 2019 Remuneration Policy has enabled us to simplify our remuneration framework by operating two incentive plans that focus on driving exceptional, sustainable growth over the long-term (via the VCP) and also reward short-term operational and strategic decisions (via the AIP).

ANNUAL INCENTIVE PLAN (AIP)

Link to strategy: The five AIP measures for 2020 which are listed on page 110 provide a good balance of rewarding performance based on both the Retail and Solutions businesses, as well as focusing on individual performance.

VALUE CREATION PLAN (VCP)

Link to strategy: The single total shareholder return measure is well aligned to our strategy of delivering substantial and sustained returns to shareholders by driving innovation and growth in our platform business.



Outcomes for 2019

FIXED COMPONENTS

	Tim Steiner CEO	Duncan Tatton-Brown CFO	Mark Richardson COO	Neill Abrams Group GC & CoSec	Luke Jensen CEO Ocado Solutions
Salary (£)	660,667	406,000	406,000	385,733	406,000
Benefits (include car allowance, private medical and other benefits) (£)	17,572	1,273	1,273	1,273	16,770
Pension - up to 8% of salary (£)	49,098	32,480	32,815	30,720	19,368
Total (£)	727,334	439,753	440,088	417,726	442,138

VARIABLE COMPONENTS

2019 AIP OUTTURN

Under this Plan, the Chief Executive Officer had a maximum bonus opportunity of 275% of salary, the Group General Counsel and Company Secretary had a maximum opportunity of 190% of salary, and the other Executive Directors had a maximum opportunity of 215% of salary. A summary of the outcomes is as follows.

	Threshold (5/10% of award payable)	Maximum (20/40% of award payable)	Outcome (% total award)
Retail revenue (20%)			0%
Retail EBITDA (20%)			0%
No of non-UK Solutions commitments (40%)			40%
Individual objectives (20%)			15%-18.5%
Total			55%-58.5%

→ Further details are set out on pages 121 to 123 in the Annual Report on Remuneration

2017 LTIP OUTTURN

Under this Plan, the Chief Executive Officer was granted an award of 200% of salary, the Group General Counsel and Company Secretary was granted an award of 120% of salary, and the other Executive Directors were granted awards of 150% of salary. A summary of the outcomes is as follows.

	Threshold (6.25% of award payable)	Maximum (25% of award payable)	Outcome (% total award)
Retail revenue (25%)			0%
Adjusted Retail EBT (25%)			0%
Platform operational efficiency (25%)			21.1%
Solutions revenue (25%)			25%
Total			46.1%

No awards will be made to Executive Directors under the LTIP from FY19 onwards.

→ Further details are set out on page 123 in the Annual Report on Remuneration

	2019 AIP		2017 LTIP	
	Outcome (% salary)	Outcome (£)	Number of shares vesting	Value on vesting (£)
Tim Steiner	157%	£1,073,738	208,778	£2,680,540
Duncan Tatton-Brown	122%	£510,195	96,797	£1,242,795
Mark Richardson	118%	£496,650	96,797	£1,242,795
Neill Abrams	110%	£461,244	65,036	£835,015
Luke Jensen	126%	£528,074	95,387	£1,224,689



Directors' Remuneration Report

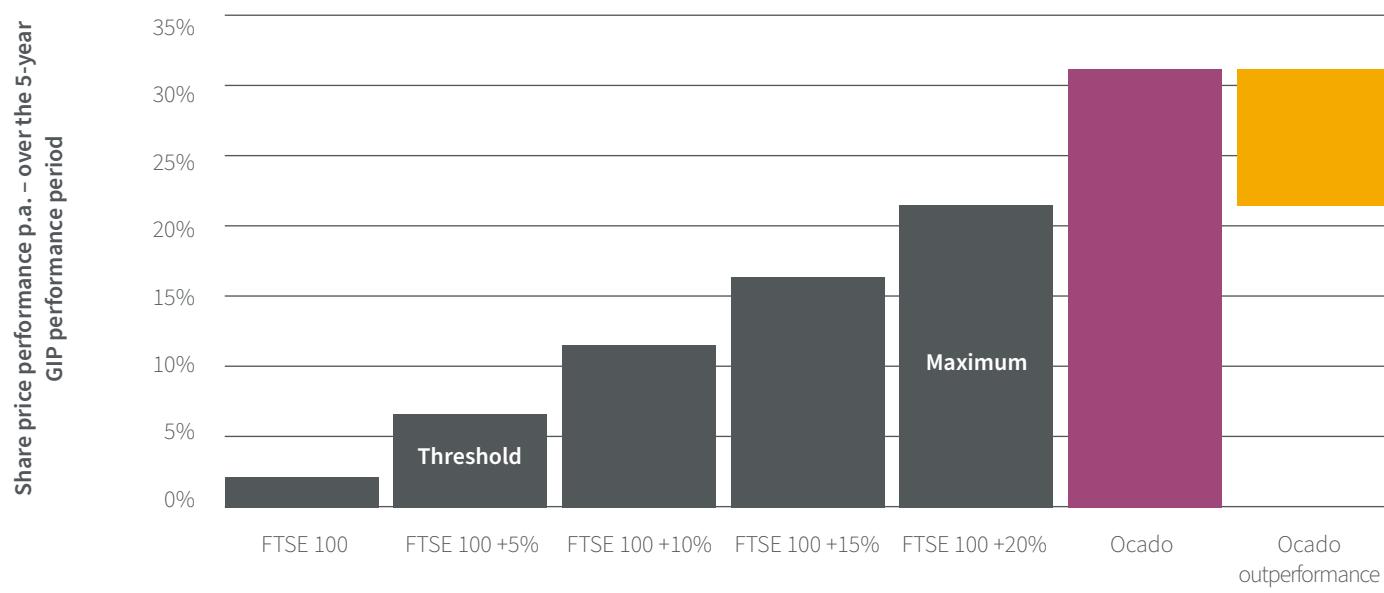
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2014 GIP OUTTURN

Awards under the one-off shareholder approved GIP were granted on 8 May 2014 and vested on 8 May 2019. Performance was tested based on Ocado's share price performance relative to the growth of the FTSE 100 Share Index over the same period. Due to the exceptional performance of the Company, achieving 31.02% p.a. share price growth compared to 1.79% p.a. growth in the FTSE 100, the GIP vested in full during the year. The Group General Counsel and Company Secretary did not participate in the GIP.

	Tim Steiner CEO	Duncan Tatton-Brown CFO	Mark Richardson COO	Luke Jensen CEO Ocado Solutions	Neill Abrams, Group GC & CoSec
Number of nil-cost options vesting	4,000,000	1,000,000	1,000,000	470,000	n/a
Value of nil-cost options vesting (£)	54,120,000	13,530,000	13,530,000	6,359,100	n/a

GIP performance Chart





2019 VCP

VCP awards were granted in May 2019. The award gives Executive Directors the opportunity to share in a proportion of the total value created for shareholders above a 10% Total Shareholder Return (“TSR”) hurdle (“Threshold TSR”) at the end of each year (“Measurement Date”) over a five-year period. At each Measurement Date, up to 2.75% of the value created above the hurdle will be “banked” in the form of share awards, which will be released in line with the vesting schedule.

The initial price for the VCP is £13.97 (the average price over the 30-day period prior to the 2019 annual general meeting). The Executive Directors will receive the right at the end of each year of the performance period to share awards with a value representing the level of the Company’s total shareholder return (“Measurement TSR”) above the Threshold TSR at the relevant Measurement Date.

The Threshold TSR or hurdle which has to be exceeded before share awards can be earned by the Executive Directors is the higher of:

- the highest previous Measurement TSR; and
- the Initial Price (£13.97) compounded by 10% p.a.

If the value created at the end of a given year does not exceed the Threshold TSR, nothing will accrue in that year under the VCP.

The vesting schedule provides that 50% of the cumulative number of share awards will vest following the third Measurement Date, 50% of the cumulative balance following the fourth Measurement Date, with 100% of the cumulative number of share awards vesting following the fifth Measurement Date. At each vesting date, vesting of awards is subject to:

- (1) A minimum TSR underpin of 10% Compound Annual Growth Rate being maintained.
- (2) Any shares vesting cannot be sold prior to the fifth anniversary.
- (3) An annual cap on vesting of £20 million for the CEO and £5 million for other Executive Directors.

The first VCP Measurement Date will be 30 days after the publication of the financial results. The following table sets out the calculation for the first Measurement Date under the VCP. At the time of writing the first Measurement Date has not yet occurred and hence the Measurement TSR is an estimate based on a 30-day average share price for the 30 days up to and including 21 January 2020.

Initial Value (share price)	£9.77 billion (£13.97)
Threshold TSR (per share)	£10.61 billion (£15.16)
Measurement TSR (Measurement Price) (illustrated as at 21 January 2020)	£9.05 billion (£12.94)
Estimated difference between Measurement TSR and Threshold TSR	(£1.55 billion)
Aggregate of Participant Rate Percentages for the Executive Directors	2.0%
Estimated Aggregate Value of Nil-Cost Options granted to Executive Directors	£0

- (1) The Measurement Price is the 30-day average closing share price for the 30 days following the announcement of the results for the financial year. For the purpose of providing a VCP performance update for this report, we have used the 30 day average closing share price for 30 days up to 21 January 2020 which is 1,294 pence.
- (2) The Threshold TSR is the Initial Value share price, compounded by 10% p.a. between 1 May 2019 and 12 March 2020, being the start of the VCP performance period, and the first Measurement Date.

Name	Participant Rate Percentage	Attributed £	Year 1 Value Attributed £	Number of Shares Subject to Nil Cost Options	Number of Shares	
					Values £	Number of Shares
Tim Steiner	1.00%	£0	£0	£0	£0	0
Duncan Tatton-Brown	0.25%	£0	£0	£0	£0	0
Mark Richardson	0.25%	£0	£0	£0	£0	0
Neill Abrams	0.25%	£0	£0	£0	£0	0
Luke Jensen	0.25%	£0	£0	£0	£0	0

The table below sets out estimates of the minimum Threshold TSR that would need to be obtained in each of the five years of the VCP before any value is delivered to Executive Directors. These Threshold TSR figures are calculated by compounding the Initial Price (£13.97) by 10% p.a., however the actual Threshold TSR is the higher of the compounded Initial Price and the highest previous Measurement TSR.

As mentioned above, the figures in the table below are estimates which are subject to change depending on the exact date that the Company’s results for the relevant financial year are published.

Minimum Threshold TSR		
Year	Market capitalisation (£ billion)	Share price (£)
1	£10.61 bn	£15.16
2	£11.67 bn	£16.68
3	£12.83 bn	£18.35
4	£14.12 bn	£20.18
5	£15.53 bn	£22.20

→ For full terms and conditions of the VCP, see the notice of the 2019 annual general meeting

Single figure for 2019

The table below provides a summary total single figure of remuneration for 2019. Further details are set out on page 119 in the Annual Report on Remuneration.

Executive Director	Total 2019 (£'000)	Total 2018 (£'000)
Tim Steiner	58,727	3,996
Duncan Tatton-Brown	15,847	1,965
Mark Richardson	15,834	1,957
Neill Abrams	1,835	1,435
Luke Jensen	8,554	2,015

Directors' Remuneration Report

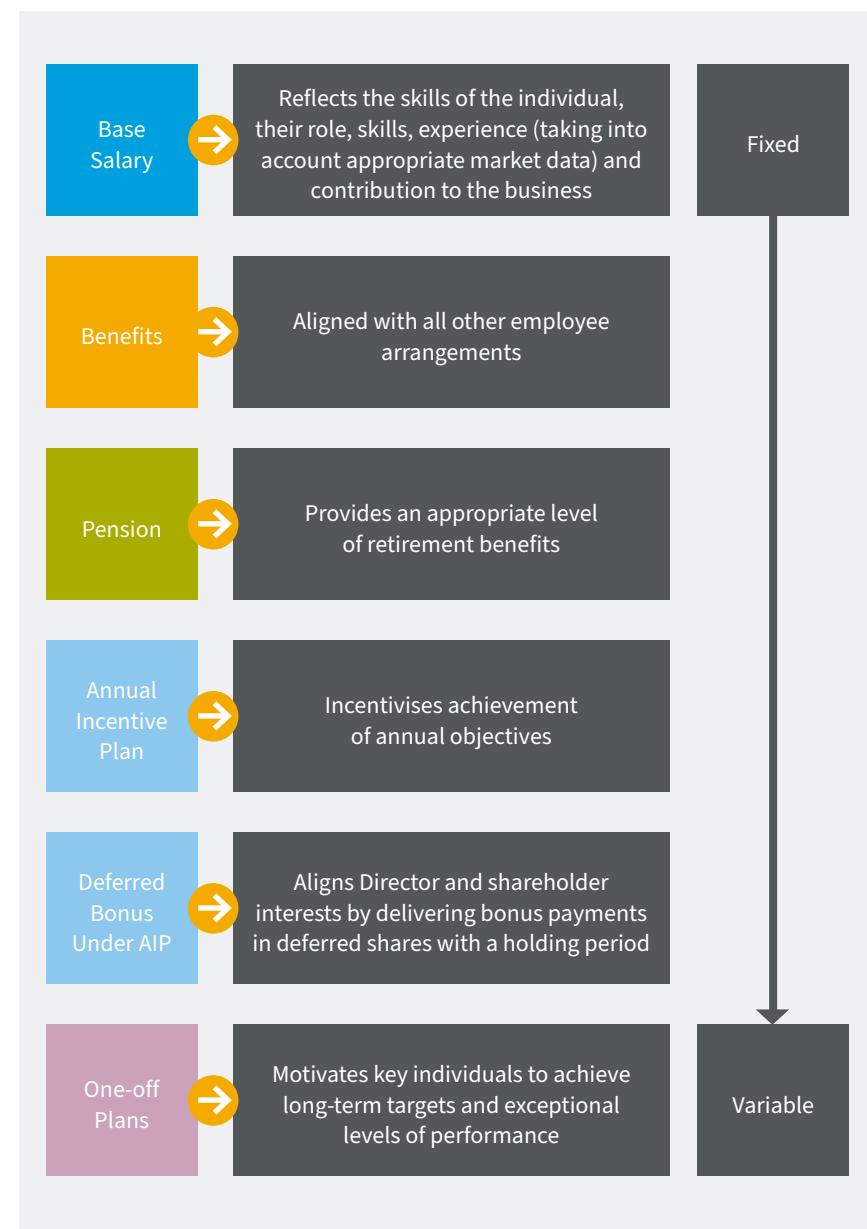
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Reward philosophy

Our remuneration principles, which we also cascade throughout the business, underpin our Remuneration Policy. These principles are that our remuneration should:

- Support long-term success of the business and sustainable long-term shareholder value.
- Be relevant and aligned to the business strategy and achievement of planned business goals.
- Reflect and support the entrepreneurial and high performance culture of the business.
- Be compatible with the Group's risk policies and systems.
- Link above-market pay-outs only to outstanding results.
- Ensure that performance-related pay constitutes a proportion of the overall package appropriate to each level of the organisation.
- Provide a balance between attracting, retaining and motivating the right calibre of candidates and supporting equal opportunity and diversity of talent.
- Be clear and explainable to appropriate stakeholders.

The Remuneration Policy for Executive Directors is made up of elements of fixed and variable remuneration. The Remuneration Committee is mindful of the weighting of fixed and variable pay and balance of short and long-term awards and has sought to position a larger proportion of the remuneration package as equity-based and performance-related in order to support the Company's strategic objectives of high growth and expansion and to create shareholder alignment. The deferral and holding periods and the minimum shareholding requirements all help to ensure a longer term focus for the business from the Executive Directors.





Summary Policy table for Executive Directors

In this section we provide a summary of the key elements of the 2019 Remuneration Policy for Executive Directors approved by shareholders at our 2019 annual general meeting on 1 May 2019. In addition, we have set out how the Policy was operated in 2018/19 and how it is intended to be operated in 2019/20.

→ You can find the full Remuneration Policy on the Corporate Website, www.ocadogroup.com

BASE SALARY

To attract and retain the right calibre of senior executives required to support the long-term interests of the business.

Element	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	Operation	Opportunity	Operation in the year ended 1 December 2019	Operation in the year ending 1 December 2020
Base Salary	→						<p>Paid monthly in cash.</p> <p>Reviewed annually or when there is a change in position or responsibility.</p> <p>The review takes into account:</p> <ul style="list-style-type: none"> • The Group's annual review process. • Business performance. • Total remuneration. • Appropriate market data for comparable roles for companies of equivalent size and complexity in similar sectors and locations to the Company. • An individual's contribution to the Group. 	<p>There is no prescribed maximum.</p> <p>Normally, maximum salary increases will be within the normal percentage range applied to the UK-based monthly paid employees of the Company in that year.</p> <p>Larger increases may be awarded in exceptional circumstances for example, if the role has increased significantly in scope or complexity.</p>	<p>As at 1 April 2019:</p> <ul style="list-style-type: none"> • Tim Steiner (CEO): £685,000 • Duncan Tatton-Brown (CFO): £420,000 • Mark Richardson (COO): £420,000 • Neill Abrams (Group GC & CoSec): £420,000 • Luke Jensen (CEO Ocado Solutions): £420,000 	<p>Subject to continued strong individual performance and the Company remaining a constituent of the FTSE 100, as at 1 April 2020:</p> <ul style="list-style-type: none"> • Tim Steiner (CEO): £720,000 • Duncan Tatton-Brown (CFO): £440,000 • Mark Richardson (COO): £440,000 • Neill Abrams (Group GC & CoSec): £440,000 • Luke Jensen (CEO Ocado Solutions): £440,000 <p>See page 120 for further details on salaries</p>

BENEFITS

To attract and retain the right calibre of senior executives required to support the long-term interests of the business.

Element	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	Operation	Opportunity	Operation in the year ended 1 December 2019	Operation in the year ending 1 December 2020
Benefits	→						<p>Benefits provided aligned with those provided to all employees under our flexible benefits policy.</p>	<p>Benefits are set at a level which is considered to be appropriate against market data for comparable roles.</p>	<p>Includes car allowance, driver, private medical insurance and other benefits.</p>	No planned change.

PENSION

To attract and retain the right calibre of senior executives required to support the long-term interests of the business.

Element	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	Operation	Opportunity	Operation in the year ended 1 December 2019	Operation in the year ending 1 December 2020
Pension	→						<p>Executive Directors can choose to participate in the defined contribution Group personal pension scheme or an occupational money purchase scheme.</p> <p>Where lifetime or pension allowances have been met, the balance of employer contributions may be paid as a cash allowance or into a personal pension arrangement.</p>	<p>Maximum contribution of 8% of salary.</p>	<p>Maximum pension contributions of up to 8% of salary offered to Executive Directors.</p>	<p>In order to ensure continued alignment between Executive Director and wider workforce pension contributions, all Executive Directors will receive a contribution rate of 7% of salary from April 2020.</p>



Directors' Remuneration Report

Continued

ANNUAL INCENTIVE PLAN (AIP)

To reinforce and reward delivery of annual strategic business priorities, based on performance measures relating to both Group and individual performance.

Bonus deferral provides alignment with shareholder interests.

Element	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	Operation	Opportunity	Operation in the year ended 1 December 2019	Operation in the year ending 1 December 2020
Annual Incentive Plan (AIP)							<p>Up to 50% of any bonus will be paid in cash (up to a maximum of 100% of salary) and at least 50% will be deferred into shares.</p> <p>Main terms of deferred shares:</p> <ul style="list-style-type: none"> Minimum deferral period of three years from the date of grant. Additional two-year post vesting holding period. Continued employment to the end of the deferral period (unless “good leaver”). <p>Dividend equivalents may be awarded on deferred shares.</p>	<p>Maximum opportunity of 275% of salary.</p>	<p>Maximum potential for the year of (as % of salary):</p> <ul style="list-style-type: none"> CEO: 275% Group GC & CoSec: 190% Other Executive Directors: 215% <p>AIP was measured against the following performance measures:</p> <ul style="list-style-type: none"> Retail Revenue (20%) Retail EBITDA (20%) Number of Non-UK Solutions commitments (40%) Individual Objectives (20%) <p>Executive Directors awarded bonuses of:</p> <ul style="list-style-type: none"> Tim Steiner (CEO): 157% of salary Duncan Tatton-Brown (CFO): 122% of salary Mark Richardson (COO): 118% of salary Neill Abrams (Group GC & CoSec): 110% of salary Luke Jensen (CEO Ocado Solutions): 126% of salary <p>→ See page 121 for further details on outcomes</p>	<p>No change to maximum potential for Executive Directors.</p> <p>AIP will be measured against the following performance measures:</p> <ul style="list-style-type: none"> Number of modules ordered by international Solutions partners (30%) Retail segment EBITDA (20%) Erith Capacity (20%) OSP Features (10%) Individual objectives (20%) (further details on page 114) <p>Percentage of maximum bonus earned for levels of performance:</p> <ul style="list-style-type: none"> Threshold: 25% Maximum: 100%

The specific performance targets for the AIP are not disclosed for the 2020 financial year on the basis the Remuneration Committee considers that these targets are commercially sensitive to the Company and if disclosed could damage the Company's commercial interests at this stage.



ONE-OFF PLAN: VALUE CREATION PLAN (VCP)

To reward and align to the delivery of sustained long-term shareholder return outperformance and to align the interests of participants with those of shareholders.

Element	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	Operation	Opportunity	Operation in the year ended 1 December 2019	Operation in the year ending 1 December 2020
One-off Plan: Value Creation Plan (VCP)							A one-off award that grants Executive Directors the opportunity to share in 2.75% of the total value created for shareholders above a 10% p.a. Total Shareholder Return (“TSR”) hurdle over a five-year performance period.	The maximum number of share awards that may vest under the VCP is 2.75% of the issued share capital. Awards are subject to an annual cap on the value on vesting of: <ul style="list-style-type: none">• CEO: £20 million;• Other Executive Directors: £5 million.	For Executive Directors, the following maximum limits apply: <ul style="list-style-type: none">• CEO: 1% of the total value created above the hurdle;• Other Executive Directors: 0.25% of the value created.	No planned change.
							Vesting schedule: <ul style="list-style-type: none">• 50% of the cumulative number of share awards vest following the third and fourth Measurement Dates.• 100% of the cumulative number of share awards vest following the fifth Measurement Date.			
							Additional holding periods apply such that vested shares become unrestricted no earlier than five years from the start of the plan.			
							Vesting of awards is also subject to a minimum return of 10% TSR p.a.			
							Executive Directors may choose to receive their share awards by acquiring jointly owned equity awards at the time that they are invited to join the VCP.			



Directors' Remuneration Report

Continued

SHAREHOLDING REQUIREMENT

Element	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	Operation	Opportunity	Operation in the year ended 1 December 2019	Operation in the year ending 1 December 2020
Shareholdings							<p>Shareholding requirement for Executive Directors:</p> <ul style="list-style-type: none"> CEO: 400% of salary. Other Executive Directors: 300% of salary. <p>Shareholding requirement for Non-Executive Directors:</p> <ul style="list-style-type: none"> Hold shares equivalent to one year's annual fee. <p>Post-cessation shareholding requirement of 100% of pre-cessation shareholding requirement for 12 months from leaving the Company.</p>		<p>Current Executive Director shareholdings are:</p> <ul style="list-style-type: none"> CEO: 43,032% of salary CFO: 4,521% of salary COO: 4,599% of salary Group GC & CoSec: 10,704% of salary CEO Ocado Solutions: 578% of salary <p>→ See page 127 for Non-Executive Director Shareholding requirements.</p>	No change.

(1) The assessment for the Executive Directors' shareholdings as a percentage of salary was based on the Directors' shareholdings at the end of the period, and the share price as at 28 January 2020 (being the last practicable date prior to the publication of this Annual Report).

SUMMARY POLICY TABLE FOR NON-EXECUTIVE DIRECTORS

The table below summarises the key elements of the 2019 Remuneration Policy for the Chairman and Non-Executive Directors.

Element	Operation	Opportunity	Operation in the year ended 1 December 2019	Operation in the year ended 1 December 2020
Chairman Fee To attract and retain an individual with the appropriate degree of expertise and experience.	<p>Paid monthly in cash.</p> <p>Reviewed annually by the Remuneration Committee.</p> <p>The review takes into account:</p> <ul style="list-style-type: none"> The Group's annual review process. Business performance. Appropriate market data for comparable roles for companies of equivalent size and complexity in similar sectors or locations to the Company. 	<p>Normally, any increases will be within the normal percentage range applied to the UK-based monthly paid employees of the Company in that year.</p>	<p>As at 1 April 2019:</p> <ul style="list-style-type: none"> Lord Rose (Chairman): £300,000. 	<p>Fee to be reviewed by the Remuneration Committee during the annual pay review period.</p>
Non-Executive Director Fee To attract and retain expert people with the appropriate degree of expertise and experience.	<p>Paid monthly in cash.</p> <p>Fee structure includes an annual base fee and may include additional fees for being the Senior Independent Director (SID), a Board Committee Chairman or other additional responsibility.</p> <p>Reviewed annually by the Executive Directors and Chairman.</p> <p>The review takes into account:</p> <ul style="list-style-type: none"> The Group's annual review process. Business performance. Appropriate market data for comparable roles for companies of equivalent size and complexity in similar sectors/locations to the Company. 	<p>Normally, any increases will be within the normal percentage range applied to the UK-based monthly paid employees of the Company in that year.</p>	<p>As at 1 April 2019:</p> <ul style="list-style-type: none"> Base fee: £65,000. SID fee: £15,000. Committee Chairman fee: £16,000. 	<p>Fee to be reviewed by the Board during the annual pay review period.</p>



Other Remuneration

During the period, the Executive Directors continued their participation in the all-employee Sharesave and SIP schemes. It is expected that in 2020, the Executive Directors will carry on their participation in the schemes.

Base Salaries

The Remuneration Committee seeks to ensure that the quantum of remuneration provided to Executive Directors is both commensurate and competitive, in order to support the long-term success of the business and sustainable long-term shareholder value.

Ocado's 2019 approved Directors' Remuneration Policy states that any base salary review will consider a number of factors, including business performance, total remuneration, appropriate market data for comparable roles for companies of equivalent size and complexity, and an individual's contribution to the Group.

The Policy also states the following in respect of the level of Director salary increases:

- Normally, maximum salary increases for Executive Directors will be within the normal percentage range and guidelines that are applied to the UK-based monthly paid employees of the Company in that year.
- Where appropriate and necessary, larger increases may be awarded in exceptional circumstances; for example, if a role has increased significantly in scope or complexity.

Over the past few years Ocado has grown substantially, establishing itself firmly in the FTSE 100 Index since its admission in June 2018. This growth reflects a series of successful deals with companies such as Morrisons, Sobeys, Kroger, Casino, ICA, Coles and Aeon as well as the recent joint venture with M&S, and has meant the Company's share price has increased by around 265% over the past two years. Executive Director salaries as set out in the FY18 Directors' Remuneration Report are significantly below that of the FTSE 100 lower quartile for equivalent roles (see page 115 for benchmarking).

Considering the above, the Remuneration Committee felt that a review of Executive Director salaries was necessary to ensure salaries reflect the significant growth in scale and complexity of the business.

The Remuneration Committee concluded that Ocado's rapid growth rate and the resulting increase in the scale and complexity of the Directors' roles reflect exceptional circumstances, and determined that increases be applied to Executive Directors' salaries in two steps:

- (1) An initial increase effective 1 April 2019
- (2) A second increase to be awarded on 1 April 2020 subject to continued strong individual performance and the Company remaining a constituent of the FTSE 100.

The resulting salaries (after both increases) are positioned around the lower quartile of the FTSE 100 equivalent roles. The salary increases are summarised in the table below.

Salary (£000s)	CEO	CFO, COO, CEO Ocado Solutions	Group GC & CoSec
April 2018 – March 2019	612	378	317
April 2019 – March 2020	685	420	420
April 2020 – March 2021	720	440	440
Salary increases (rounded to the nearest 0.5%)			
First increase	12%	11%	32.5%
Second increase	5%	5%	5%



Directors' Remuneration Report

Continued

Individual Objectives for 2020 AIP

The following table sets out the categories of individual objectives that will be assessed over 2020. More detail on the objectives and assessment against these will be disclosed in next year's report.

Tim Steiner	<ul style="list-style-type: none"> Grow the international Ocado Solutions client base and build the foundations for future revenue growth Launch Sobeys and Casino OSPs in set timeframe Deliver Ocado Retail sales and EBITDA Successful delivery against the technology and innovation strategy Deliver the organisational transformation
Duncan Tatton-Brown	<ul style="list-style-type: none"> Review and enhance operation of the broader Finance team including the Transformation team Identify and complete suitable new venture investments and ensure optimal outcome for existing investments with limited support from the core business Reduce the long term ownership cost of the solution Ensure suitable funding structure remains in place to allow the Group to achieve its strategic objectives
Mark Richardson	<ul style="list-style-type: none"> Launch of Sobeys and Casino CFCs in set timeframes Grow Erith order capacity Create Implementation team capable of meeting OSP roll-out challenge Create Client Services team capable of supporting live and future OSP clients
Neill Abrams	<ul style="list-style-type: none"> Support the execution of signed international Ocado Solutions deals Support CEO in continued transformation of Ocado Group into a technology business Continue transformation of Legal, Governance and IP function
Luke Jensen	<ul style="list-style-type: none"> Grow the international Ocado Solutions client base Build the foundations for future revenue growth of Ocado Solutions Develop Ocado Solutions/International infrastructure to support future growth Build profile and reputation of Ocado Solutions

Additional Context on Executive Director pay

Overall link to remuneration and equity of the Executive Directors

The table below sets out, for each Executive Director, the single figure for 2018/19, the number of shares held by the Director at the beginning and end of the financial year and the impact on the value of these shares taking the opening price and closing price for the year. It is the Remuneration Committee's view that the total exposure of the Executive Directors to the Company is more relevant to their focus on the long-term sustainable performance of the Company than the single figure of remuneration for a particular year.

	2018/19 single figure (£000s)	Shares held at start of year	Shares held at end of year	Value of shares at start of year (£000s)	Value of shares at end of year (£000s)	Difference (£000s)
Tim Steiner	58,727	23,478,117	23,597,672	195,150	312,669	+117,519
Duncan Tatton-Brown	15,847	1,467,988	1,521,327	12,202	20,158	+7,956
Mark Richardson	15,834	1,494,393	1,547,739	12,421	20,508	+8,087
Neill Abrams	1,835	4,707,093	3,602,071	39,125	47,727	+8,602
Luke Jensen	8,554	177,765	194,524	1,478	2,577	+1,099

The closing market price of the Company's shares as at 29 November 2019, being the last trading day in the period ended 1 December 2019, was 1,325 pence per ordinary share (2018: 831.2 pence), and the share price range applicable during the period was 749.8 pence to 1,435 pence per ordinary share.



How does our salary/target total remuneration compare to our peers?

The following tables show the Company's comparative positioning of both salary and total remuneration against the FTSE 100 (data as at January 2019). This demonstrates the Remuneration Committee's positioning of salaries below the market with competitive levels of remuneration only earned by the Executive Directors if strong performance is delivered.

FTSE 100 salary positioning

Salary £000s	CEO	CFO	COO	CEO, Ocado Solutions	Group GC & CoSec
Upper Quartile	1,060	700	690	645	645
Median	860	550	585	500	500
Lower Quartile	715	465	430	410	410
Ocado (before any increases)	612	378	378	378	317
Ocado (after both increases)	720	440	440	440	440

FTSE 100 Total Target Remuneration positioning

Total Target Remuneration £000s	CEO	CFO	COO	CEO, Ocado Solutions	Group GC & CoSec
Upper Quartile	4,365	2,660	2,205	2,310	2,310
Median	3,150	1,865	1,590	1,545	1,545
Lower Quartile	2,265	1,415	1,310	1,260	1,260
Ocado (without the VCP)	1,870	995	995	995	932
Ocado (with the VCP)	4,788	1,725	1,725	1,725	1,662

Note: Total Target Remuneration figures for Ocado are based on current salaries, target AIP and includes pension contributions. The value of the VCP shown is the IFRS 2 fair value which has been annualised to reflect a five-year term. Source of information: Annual Reports of FTSE100 companies, benchmarking methodology aligned to standard approach taken by the company

Source of data: PwC Annual Report database.





Directors' Remuneration Report

Continued

Annual Report on Remuneration – 2019

Introduction

This part of the Directors' Remuneration Report sets out the Directors' remuneration paid in respect of the 2019 Financial Year. It details the payments to Directors and the link between Company performance and remuneration of the Chief Executive Officer.

Wider Workforce Considerations and Our Approach to Fairness

Ocado is committed to ensuring our workforce has the diversity of talent and expertise that it needs for the business to continue to grow and innovate. Our people are critical to us achieving our strategy and the Remuneration Committee is aware that ensuring our people are rewarded fairly and competitively for their contribution to our success is important for hiring, developing and retaining the highest quality of talent throughout Ocado.

The Remuneration Policy is designed in line with the remuneration principles outlined on page 108, which reflect the remuneration principles for the Group. In this section, we provide context to our Executive Director pay by explaining our approach to fairness, as well as the ratio of CEO pay to that of the wider workforce.

Group-wide remuneration report

The Remuneration Committee receives an annual report from management on Group-wide remuneration. This review covers changes to pay, benefits, pensions and share schemes for all employees in the Group, including the percentage increases in base pay for monthly and hourly paid employees. The Remuneration Committee's work includes monitoring and commenting on the level and structure of remuneration for the Management Committee in relation to various changes to base pay and incentive plans. The Remuneration Committee carefully considers the relevant parts of this report when making decisions on executive remuneration.

Share schemes

A key remuneration principle for the Group is that share awards be used to recognise and reward good performance, and attract and retain employees.

To help support alignment across the Group and with the interests of shareholders and reward for company performance, all UK employees are eligible to participate in the Group Share Incentive Plan and Sharesave plan. The Sharesave plan alone has delivered around £34,000,000 of value to our employees this year with the average participant earning £31,940.

Employment at Ocado

Our Equal Opportunities Policy is dedicated to creating an environment for our employees that is free from discrimination, harassment and victimisation, reflecting our commitment to creating a diverse workforce, environment and pay strategy that supports all individuals irrespective of their gender, age, race, disability, sexual orientation, or religion.

Chief Executive Officer pay ratios

The tables below set out the total pay of the Group Chief Executive Officer and UK employee population as a whole at median, lower quartile and upper quartile using the methodology applied to the single figure of remuneration. We set this out on the following bases:

- An estimate of the 2018 CEO pay ratio
- The 2019 pay ratio, both with and without the one-off GIP payment
- An illustrative figure for the 2020 pay ratio

The CEO pay ratio, when calculated in line with the Regulations, is particularly high for 2019 due to the inclusion of the GIP which was granted in 2014 and vested in 2019. Due to the one-off nature of the GIP, we believe the ratio excluding the GIP is more meaningful as it more accurately reflects the levels of remuneration that Ocado's CEO typically receives.

This is highlighted by the fact then when we compare the 2019 pay ratio excluding the GIP to last year's estimated pay ratio and the illustrative ratio for next year (2020), the figures are far less volatile.

Executive Director pay is more at risk than wider employee pay due to the use of variable pay, resulting in a total pay ratio that can change significantly from year to year.

Year	CEO Remuneration (£'000)	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2018/19 – reported figures	£58,727	2,820:1	2,605:1	2,337:1
2017/18 – equivalent calculation	£3,996	198:1	183:1	164:1
2018/19 – without GIP payment	£4,607	221:1	204:1	183:1
2019/20 – illustrative remuneration	£5,214	242:1	223:1	200:1

- (1) Option B was selected to calculate CEO pay ratios as a proportionate, sustainable and repeatable approach given the size and structure of the Ocado workforce.
- (2) From the information used to calculate the most recent gender pay return at each of the 25th, 50th and 75th percentiles twenty employees were identified as comparators and their remuneration calculated. The median remuneration for each group of twenty employees is reported as the comparator value for CEO pay ratio calculations. Using the median value from groups of employees at each of the 25th, 50th and 75th percentiles provides a more representative estimate than if based on an individual employee, reducing the influence of outlier value.
- (3) The 2017/18 equivalent calculation follows the same methodology as applied for the 2018/19 reported figures, identifying a median remuneration for each group of twenty employees that best represents the 25th, 50th and 75th percentiles.
- (4) The 2019/20 illustrative ratio assumes a 3.65% increase in employee annual remuneration for the 25th, 50th and 75th percentile representative employees, derived from the percentage increase in annual salary between 2018 and 2019 as set out on page 118.
- (5) The 2019/20 illustrative remuneration for the CEO single total figure of remuneration is based on a CEO salary of £720,000 (salary as of 01/04/2020), a 7% pension contribution as set out on page 109, 2018/19 reported taxable benefits uplifted at 3%, an AIP and LTIP vesting of 57% and 46.1% respectively in line with those received during the period and the SIP awards that will become unrestricted during the next period at a share price of 1,325 pence per share.

Year	Chief Executive Officer		UK employees (full time equivalents)						
	Total pay and benefits (£'000)	Salary (£'000)	Total pay and benefits (£'000)			Salary (£'000)	25th percentile	Median	75th percentile
			25th percentile	Median	75th percentile				
2018/19	58,727	661	20.8	22.5	25.1	19.3	20.9	23.1	

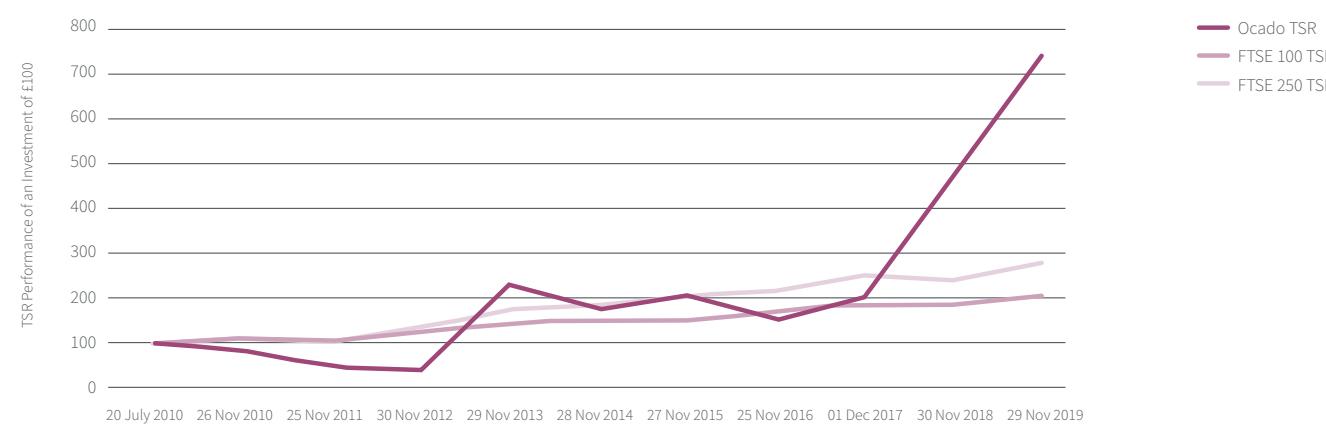


Gender Pay Gap

The Company will be reporting specific information about the difference in average pay for its male and female employees as required by gender pay gap legislation. The Company's gender pay gap metrics are submitted by the Group's main employing entity, Ocado Central Services Limited and the headline gender pay metric is the difference in the median hourly pay received by men and women. For 2019, this metric remains balanced as it has done in previous years, although now marginally favours men, with a difference of 0.4%. For more information and to view the full metrics see the Government Gender Pay Gap portal or the Corporate Website, www.ocadogroup.com.

Total Shareholder Return

The following graph shows the Total Shareholder Return (TSR) performance of an investment of £100 in Ocado shares from its Admission to the end of the period compared with an equivalent investment in the FTSE 100 and FTSE 250 Indices over the past nine years. These indices were chosen as Ocado has historically been a constituent of the FTSE 250 Index, and entered the FTSE 100 in 2018. Both represent a broad equity market index against which the Company can be compared historically. The Company has not paid a dividend since its Admission so the Company's TSR does not factor in dividends reinvested in shares.



Chief Executive Officer Historical Remuneration

The table below summarises in respect of the Chief Executive Officer the single figure of total remuneration, the AIP or bonus plan payment as a percentage of maximum opportunity, and the long-term incentives as a percentage of maximum opportunity for the current period and the previous nine financial years.

Year	Chief Executive Officer Total Remuneration (£'000)	AIP or Bonus Payment as a Percentage of Maximum Target Achievement (% of maximum)	Value of AIP or Bonus Payment (£'000)	Long-Term Incentives as a Percentage of Maximum Opportunity (% of maximum)
2019	58,727	57	1,074	94.5
2018	3,996	70.5	539	50
2017	1,337	41.8	310	33.4
2016	1,141	43.6	315	43.2
2015	5,098	65.0	459	90.8
2014	6,483	56.0	385	100
2013	1,011	98.3	528	0
2012	483	29.7	104	0
2011	987	0	0	100
2010	599	n/a	220	0

- (1) The Chief Executive Officer total remuneration figures prior to the 2013 period represent the previously presented audited information with necessary adjustments for amounts required to be included in the single total figure of remuneration (such as pension amounts) under the new regulations (which first applied to the 2013 financial period).
- (2) From 2010, the Company had the JSOS as the main form of long-term incentive plan. In 2011, the first tranche of JSOS shares vested in that period. For the 2012 and 2013 financial years, the JSOS interests did not have any value at the vesting date. In 2014, the final tranche of JSOS shares vested in that period (the value of such remuneration is noted in the single total figure of remuneration above). The LTIP was implemented in 2013 and the first award had a performance period ending in 2015 and a vesting date in 2016. The GIP and SIP were both implemented in 2014, but had vesting dates in 2019 and 2017 respectively. As of this period, the VCP is now the main form of long-term incentive plan.
- (3) The total remuneration amounts shown above are the amounts restated to account for the final vesting of each of the LTIP awards. For an explanation of this restatement in respect of the 2019 period see note 1 of the total remuneration table on page 119.
- (4) The 2017 LTIP vested at 46.1% of maximum and the GIP vested at 100% of maximum. The 2019 period Long-Term Incentive value is a weighted average of the 2017 LTIP and the GIP.



Directors' Remuneration Report

Continued

Chief Executive Officer Percentage Change Versus Employee Group

To put the Directors' remuneration into context, the table below sets out the change in salary, benefits, and bonus of the Chief Executive Officer and of all UK employees from the preceding period to the current period.

	Chief Executive Officer	UK employees
Percentage change in salary from 2018 to 2019	11.9%	3.65%
Percentage change in taxable benefits from 2018 to 2019	(6.9%)	7%
Percentage change in AIP earned from 2018 to 2019	99.1%	125.9%

(1) Most of the Group's employees are not entitled to earn an annual bonus payment as part of their remuneration.

(2) The change in salary data for the Group's employees is on a per capita basis.

(3) The change in salary for the Chief Executive Officer is based on the base salary review set out on page 109.

(4) The change in taxable benefits for the Chief Executive Officer is as set out on pages 119 to 120.

(5) UK employees have been chosen as the majority of our workforce is UK-based.

Cascade of Remuneration through company

All UK staff in the Company are eligible to participate in the Company's all-employee share schemes, pension scheme and life assurance arrangements. In line with the 2018 Code, the 2019 Remuneration Policy ensures that pension contributions for existing and any future Executive Directors will be aligned with the level currently offered to all employees to ensure greater fairness across the Company.

The remuneration arrangements for employees below Board level reflect the seniority of the role and individual performance. The components and levels of remuneration for different employees differ from the remuneration framework for the Executive Directors. The Group operates some tailored bonus and long-term incentive arrangements for certain groups of employees but has not adopted a universal approach to these elements of remuneration for all employees.

Members of the Management Committee participate in various combinations of the AIP, LTIP, VCP and other bespoke one-off arrangements, with limited or no share deferral or holding periods operating on these plans. The exact package received by a member of the Management Committee reflects their job role and responsibilities, seniority and time in role. For some small groups of senior employees, the Group operates some tailored bonus and long-term incentive arrangements such as the cash-based long-term incentive scheme and management incentive plans.

The all employee remuneration report produced by the Company is considered by the Remuneration Committee when making decisions on pay for both Executive Directors and the wider workforce population.

Relative Importance of Spend on Pay

The following table shows the Company's profit and total Group-wide expenditure on pay for all employees for the period and last financial year. The Company has not paid a dividend or carried out a share buyback in the current year nor previous year. The information shown in this table is:

- Loss – Group loss before tax as set out in Note 2.1 to the Consolidated Financial Statements.
- Total gross employee pay – total gross employment costs for the Group (including pension, variable pay, share-based payments and social security) as set out in Note 2.6 to the Consolidated Financial Statements.

	1 December 2019 (£m)	2 December 2018 (£m)
Loss before tax	(214.5)	(44.4)
Total gross employee pay	476.8	388.4



Executive Directors

Total Remuneration (Audited)

The total remuneration for the period for each of the Executive Directors is set out in the table below.

	Tim Steiner		Duncan Tatton-Brown		Mark Richardson		Neill Abrams		Luke Jensen		Total	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Salary	661	606	406	374	406	374	386	314	406	281	2,265	1,949
Taxable Benefits	18	19	1	2	1	2	1	2	17	5	38	30
Pensions	49	54	33	29	33	27	31	25	19	21	165	156
Total Fixed Pay	728	679	440	405	440	403	418	341	442	307	2,468	2,135
Variable Pay												
AIP	1,074	539	510	266	497	260	461	225	528	271	3,070	1,561
LTIP	2,681	2,767	1,243	1,283	1,243	1,283	835	860	1,225	—	7,227	6,193
Cash LTIP	—	—	—	—	—	—	—	—	—	1,438	—	1,438
GIP	54,120	—	13,530	—	13,530	—	—	—	6,359	—	87,539	—
ESOS and 2014 ESOS	—	—	—	—	—	—	—	—	—	—	—	—
SIP	19	11	19	11	19	11	16	9	—	—	73	42
Sharesave	105	—	105	—	105	—	105	—	—	—	420	—
VCP	—	—	—	—	—	—	—	—	—	—	—	—
Total Variable Pay	57,999	3,317	15,407	1,560	15,394	1,554	1,417	1,094	8,112	1,709	98,329	9,234
Recovery of Sums Paid	—	—	—	—	—	—	—	—	—	—	—	—
Total Remuneration	58,727	3,996	15,847	1,965	15,834	1,957	1,835	1,435	8,554	2,016	100,797	11,369

- (1) The value of LTIP awards for 2016 included in the column for the 2018 financial year has been restated to show the actual vested amount (based on the vesting of the award on 27 March 2019 at a price of 1,287 pence per share). The actual vested amount is £2,051,000 higher than the estimated vested amount stated in the 2018 annual report of £4,138,000. The estimated vested amount was based on the three-month average share price from 30 August 2018 to 2 December 2018 of 860.03 pence per share. No dividends were paid.
- (2) The value of LTIP awards for 2017 included in the column for the 2019 financial year has been based on 46.1% vesting and estimated using the three-month average share price from 2 September 2019 to 29 November 2019 of 1,283.92 pence per share, as these awards are not capable of vesting until after the end of the period, on 20 February 2020. This value assumes no dividends will be payable and that the Executive Director will not be required to pay an amount to acquire the conditional shares, being the nominal price of 2 pence per share. These estimated figures will be restated in next year's annual report.
- (3) Luke Jensen was granted a Cash LTIP award in 2017 prior to becoming an Executive Director. The value of the Cash LTIP award included in the column for the 2018 financial year has been restated to show the actual vested amount based on the vesting of the award on 15 March 2019 at a price of 1,001 pence. The actual vested amount is £282,000 higher than the estimated vested amount stated in the 2018 Annual Report. The estimated vested amount was based on the average share price in the final twenty business days in the 2018 Financial Year, being 804.5 pence per share. More detail can be found on page 124.
- (4) Under the Share Incentive Plan, awards of Free Shares and Matching Shares became unrestricted during the period. These awards are explained on page 124 of this report.
- (5) Taxable benefits includes one or more of: private healthcare; life assurance; private use of a company driver; or a car allowance.
- (6) The value of the GIP included in the column for the 2019 financial year displays the face value of the nil-cost options at the time of vesting on 8 May 2019, at a price of 1,353 pence per share.
- (7) 50% of the AIP payment is deferred in shares for a period of three years, with an additional two year holding period. There are no performance conditions attached to the deferred element.
- (8) No figures are stated for the VCP, to show that there is no expected value for the 2019 financial year. This is based upon a Measurement Threshold TSR of 12.94, estimated using the average share price of the 30 days up to and including 21 January 2020, as the Measurement Date for the VCP falls outside of the period, on 12 March 2020.
- (9) Due to an administrative error, an over-payment of pension benefits was made to Luke Jensen in the 2018 financial year, therefore there has been a downward adjustment in this financial year to rectify the error.

An explanation of each element of remuneration paid in the table is set out in the following section.



Directors' Remuneration Report

Continued

BASE SALARY (AUDITED)

During the period, the Remuneration Committee reviewed the salaries of the Executive Directors. After taking into account a number of relevant factors the Remuneration Committee recommended that all basic salaries be increased. The following table shows the change in each Executive Director's salary.

Director	Salary 2019 (£)	Salary 2018 (£)	Effective from
Tim Steiner	685,000	612,000	01/04/2019
Duncan Tatton-Brown	420,000	378,000	01/04/2019
Mark Richardson	420,000	378,000	01/04/2019
Neill Abrams	420,000	317,200	01/04/2019
Luke Jensen	420,000	378,000	01/04/2019

The changes to base salary were made in line with the Directors' Remuneration Policy. The Executive Directors received an increase in base pay of 11%–32.5% (rounded accordingly) to reflect the significant growth in the Company over the past two years.

→ Further details are set out on pages 99 to 100

CHANGES FOR NON-EXECUTIVE DIRECTORS AND CHAIRMAN

The fees for Non-Executive Directors are reviewed and agreed annually. The fees are set out in the table below.

Fees	Chairman	NED base fee	Committee Chairman fee	SID Fee
Effective from 1 April 2018	£200,000	£52,000	£13,000	–
Effective from 1 April 2019	£300,000	£65,000	£16,000	£15,000
% change	50%	25%	23%	–

TAXABLE BENEFITS (AUDITED)

The Executive Directors received taxable benefits during the period, notably private medical insurance and travel insurance. The Executive Directors also received other benefits, which are not taxable including income protection insurance, life assurance and Group-wide employee benefits, such as an employee discount. The taxable benefits shown in the Total Remuneration Table on page 119 include the private use of a company driver for Tim Steiner, and a car allowance for Luke Jensen. Non-business use of the chauffeur is tracked and is shown as a taxable benefit in the total remuneration table to the extent it was used for that purpose. These benefit arrangements were made in line with the Directors' Remuneration Policy which allows the Company to provide a broad range of employee benefits.

PENSIONS (AUDITED)

The Company made pension contributions on behalf of the Executive Directors to the defined contribution Group personal pension scheme. The employer contributions to the pension scheme in respect of each Executive Director are made in line with the Group personal pension scheme for all employees. The contributions during the period made on behalf of the Executive Directors were up to 8% of base salary. These contributions were made in line with the Directors' Remuneration Policy.

Pension contributions can be made to the Executive Directors (and any other employee) as a cash allowance where the Executive Director (or employee) has reached either the HMRC annual tax free limit or HMRC lifetime allowance limit for pension contributions as provided for in the Directors' Remuneration Policy. In accordance with the policy, Tim Steiner, Mark Richardson, Luke Jensen and Neill Abrams have elected to receive part of their pension contributions as an equivalent cash allowance. Duncan Tatton-Brown has elected to receive all of his pension contribution as cash in line with the Company policy.



ANNUAL INCENTIVE PLAN (AIP) (AUDITED)

The 2019 AIP was based on the performance targets and weightings set out below. The Chief Executive Officer had a maximum bonus opportunity of 275% of salary, the Group General Counsel and Company Secretary had a maximum bonus opportunity of 190% of salary and the other Executive Directors had a maximum opportunity of 215% of salary.

Performance conditions	Weighting of each condition	Performance targets required		Actual Performance	Percentage of maximum performance achieved	Annual bonus value achieved (£'000)				
		Threshold	Maximum			Tim Steiner	Duncan Tatton-Brown	Mark Richardson	Neill Abrams	Luke Jensen
Retail Revenue	20%	Threshold	£1,619.6m	£1,617m	0%	0	0	0	0	0
		Maximum	£1,730m							
Retail EBITDA	20%	Threshold	£85m	£79.2m	0%	0	0	0	0	0
		Maximum	£100m							
No. of Non-UK Solutions commitments	40%	Threshold	5 new CFCs		40%	754	361	361	319	361
		Maximum	10 new CFCs	10 new CFCs						
Individual Objectives	20%	See next page			15.0% - 18.5%	320	149	136	142	167
Total	100%					1,074	510	497	461	528

- (1) The Remuneration Committee has agreed "threshold" and "maximum" conditions that must be achieved. An award will not vest unless a "threshold" level of the performance condition has been achieved.
- (2) There is no threshold or maximum target set for the individual objectives. Each objective is weighted and scored to provide a total score out of 20. Performance may range from zero to 20.
- (3) The applicable salary used for calculating the bonus payment under the rules of the 2019 AIP is the applicable base salary on the date of payment.

50% of the AIP achieved in the year will be deferred into shares for three years (subject to a two-year holding period on vesting).

The Retail revenue measure is linked to revenue for the Retail business segment for the Financial Year. Retail EBITDA is EBITDA for the Retail business segment for the Financial Year, calculated pre-exceptional costs and post any assumed payout under the Plan.



Directors' Remuneration Report

Continued

INDIVIDUAL OBJECTIVES FOR 2019 AIP

The Remuneration Committee reviewed the performance of each Executive Director against the measurable performance metrics and based their judgement on a scoring report by the Chief Executive Officer and the Chairman.

Objective	Achievement	% achievement
Tim Steiner		
• Lead strategic change in the retail business to drive long term profitability	• Successful completion of the joint venture agreement with Marks & Spencer	Met
• Oversee growth of the International Solutions client base and future revenue stream	• Oversaw significant growth in the Ocado Solutions business with £140m fees invoiced to date and signing of Coles and Aeon deals	Met/ongoing
• Drive down platform costs to ensure execution of Ocado Solutions deals	• Cost reduction of 20% in forecast bot costs	Met/ongoing
• Create long term value from CTO office	• Further progression with development of Ocado ventures with four investments made	Ongoing
• Provide direction and manage direct reports to ensure objective delivery	• Board judgement on overall company performance and achievement of Executive Directors against their objectives	Met
<i>Overall performance against individual strategic objectives (maximum opportunity: 20%)</i>		17
Duncan Tatton-Brown		
• Optimise the group funding structure	• Funding structure suitable, with Board agreed retention of existing bond, £600m convertible issued at better end of pricing indications, and with funding requirements in place for all existing needs	Met
• Comprehensive investor engagement	• Extensive programme of engagement activity with investors (with over 500 investor meetings in the year)	Met/ongoing
• Reduce engineering costs	• Reduction in Erith costs per order by one third	Ongoing
• Growth in Retail EBITDA margin %	• Increase in Retail EBITDA as % of Retail revenue prior to Andover fire and expectations of continued improvement post fire	Met
<i>Overall performance against individual strategic objectives (maximum opportunity: 20%)</i>		16.5
Mark Richardson		
• Increase CFC capacity	• Erith capacity increased to over 70,000 OPW, 95% of target for the period	Met/ongoing
• Increase CFC productivity	• Weekly productivity in mature CFCs increased to 167 UPH and Erith above Hatfield at year end, 100% of target	Met/ongoing
• Third generation robot on track to begin production by year end	• Third generation robots now being produced	Met
• Establish overseas engineering teams	• Engineering teams in France and Canada established ahead of launch	Met
• Reduce long term production costs per bot	• Current forecast has cost per bot reduction of 20%	Ongoing
<i>Overall performance against individual strategic objectives (maximum opportunity: 20%)</i>		15
Neill Abrams		
• Lead the Group operations departments, including certain specific measurable KPIs for legal and governance, risk and compliance performance and international expansion of People Department	• Successful leadership and implementation of workflow management software, despite disruptive events such as the fire in the Andover CFC, with KPIs for legal and governance, risk and compliance still in progress	Met/ongoing
• Support CEO in continued transformation of the Company	• Expanded IP protection programme and successfully completed corporate transactions	Ongoing
• Support the execution of Ocado Solutions deals	• Executed various existing deals and provided extensive support on prospects	Met/ongoing
• Successful prosecution of litigation and regulatory investigations	• Successful leadership of litigation throughout the period including identification of IP material	Met
• Institute a pragmatic Brexit response plan	• Led analysis of Brexit response team, planned to mitigate risks including contingency planning with suppliers and capitalised on opportunities whilst focussing on employees	Met
• Strategic progress of the General Merchandise division	• Sale of Fabled business to Next, and improvements in Fetch prior to transfer to Ocado Retail	Met/ongoing
<i>Overall performance against individual strategic objectives (maximum opportunity: 20%)</i>		17.8



Objective	Achievement	% achievement
Luke Jensen		
• Grow the Ocado Solutions client base	• Aeon and Coles partnerships signed within the period	Met
• Growth in Ocado Solutions' future revenue	• New orders and commitments from partners within the period - well above expectations, with £140m of fees invoiced to date	Met/ongoing
• Develop Ocado Solutions infrastructure to support future growth	• US office opened and running, also with employees in France, Canada, Australia and broader offers ready to market to clients	Met/ongoing
• Build profile and reputation of Ocado Solutions	• More than 20 meetings held with international retailers. Successfully developed Ocado Solutions' profile via press interviews and social media	Ongoing
• Implement deals to agreed timescales and budgets	• All client projects currently running within contractual timelines, with costs tracking within budgets	Met
<i>Overall performance against individual strategic objectives (maximum opportunity: 20%)</i>		18.5

LONG-TERM INCENTIVE PLAN (LTIP) (AUDITED)

The three-year performance period for the 2017 LTIP awards expired at the end of the financial year. The Remuneration Committee reviewed the performance against the four equally weighted performance conditions for the 2019 Financial Year and has recommended overall vesting of 46.1%.

The value of the 2017 LTIP awards in the total remuneration table and below is estimated based on the average Company share price for the final three months of the period, being 1,283.92 pence per share. The expected vesting date of the 2017 LTIP award is 20 February 2020. Subject to the continued satisfaction of the award conditions, final vesting will be determined.

Performance conditions	Weighting of each condition	Performance targets required		Actual Performance	Percentage of maximum performance achieved	Estimated LTIP value (£'000)				
		Duncan Tatton-Brown	Tim Steiner			Mark Richardson	Neill Abrams	Luke Jensen		
Retail Revenue	25%	Threshold	£1,700m	£1,617m	0%	0	0	0	0	0
		Maximum	£1,850m							
Adjusted Retail EBT	25%	Threshold	£33m	(£6.1m)	0%	0	0	0	0	0
		Maximum	£45m							
Platform Operational Efficiency	25%	Threshold	132.3 UPH	150.7 UPH	21.1%	1,227	569	569	382	561
		Maximum	155.6 UPH							
Solutions Revenue	25%	Threshold	£20m	£70.5m	25%	1,454	674	674	453	664
		Maximum	£45m							
Total	100%				46.1%	2,681	1,243	1,243	835	1,225

- (1) The Remuneration Committee has agreed "threshold" and "maximum" conditions that must be achieved. An award will not vest unless a "threshold" level of the performance condition has been achieved. At "threshold" performance for a financial performance measure, 5% of the total award will vest and 25% vesting will occur for achieving or exceeding "maximum" performance for a condition. A straight-line sliding scale applies in relation to the intermediate points between the "threshold" and "maximum".
- (2) Details of the number of conditional shares awarded to each Director for the 2017 LTIP awards are shown in the table on 127.
- (3) The Solutions Revenue target was measured under the pre-IFRS accounting standard that was in place when the targets were set.

Neither Retail business target met the threshold. The revenue used as a performance condition for the LTIP includes Retail Revenue generated by Ocado.com and the other Retail site – Fetch – but excludes revenue from Morrisons and the Solutions business.

The adjusted Retail EBT measure is not consistent with the segmental reporting changes made in 2017. The performance target for adjusted Retail EBT is based on Group EBT less an apportionment of certain costs in a number of areas relating to the Solutions business and is based on 52 weeks. This measure is used by the Remuneration Committee to assess management performance for the 2017 LTIP only. It is not considered an Alternative Performance Measure.

During the year revenue from the Solutions business exceeded £45m resulting in maximum payout for this measure.

The Remuneration Committee exercised discretion to prorate the Platform Operational Efficiency targets in light of the fire at the Andover CFC. The threshold and maximum targets were prorated for time up to the point prior to the fire and efficiency was also tested at this point, on the basis that a sufficient proportion of the performance period had passed and the Remuneration Committee was comfortable that the trajectory of improvement to this point would have continued to the end of the performance period. In line with our Directors' Remuneration Policy and plan rules, the Remuneration Committee was satisfied that the amended targets were equally difficult to satisfy as the original condition would have been had such circumstances not arisen.



Directors' Remuneration Report

Continued

GROWTH INCENTIVE PLAN (GIP) (AUDITED)

The five-year performance period for the 2014 GIP awards expired on 8 May 2019. The shareholder approved GIP was subject to a single performance condition, the share price growth of the Company relative to the growth of the FTSE 100 Share Index over that same period.

The Executive Directors' total GIP awards were as follows:

Director	Type of interest	Date of Grant	Number of nil-cost options granted	Face Value of Award (£)	End of Performance Period	Exercise Period	Number of nil-cost options vesting	Value of nil-cost options on vesting (£)	Value due to share price appreciation (£)
Tim Steiner	Option with nil exercise price	08/05/14	4,000,000	12,744,000	08/05/19	08/05/19 – 31/05/24	4,000,000	54,120,000	41,376,000
Duncan Tatton-Brown	Option with nil exercise price	08/05/14	1,000,000	3,186,000	08/05/19	08/05/19 – 31/05/24	1,000,000	13,530,000	10,344,000
Mark Richardson	Option with nil exercise price	08/05/14	1,000,000	3,186,000	08/05/19	08/05/19 – 31/05/24	1,000,000	13,530,000	10,344,000
Luke Jensen	Option with nil exercise price	22/02/17	470,000	1,191,450	08/05/19	08/05/19 – 31/05/24	470,000	6,359,100	5,167,750

(1) The face value of the options was determined based on a price of 318.60 pence per share being the price on the date of grant.

(2) The value of the options on vesting was determined based on a price of 1,353.00 pence per share being the price on the date of vesting.

(3) Neill Abrams did not participate in the 2014 GIP.

(4) The nil cost options were exercised on 23 May 2019 at an option price of £12.402 with a total gain of £80,240,940 (lower than the figures presented in the single figure table). On the basis of the Directors' intention to sell on exercise, in the interests of all stakeholders, the Committee decided to pay the gains in cash as permitted under the GIP scheme rules.

Performance schedule	Percentage of award vesting (%)
Growth of less than the FTSE 100 Share Index + 5% p.a.	0
Growth in the FTSE 100 Share Index + 5% p.a.	25
Growth in the FTSE 100 Share Index + 10% p.a.	50
Growth in the FTSE 100 Share Index + 15% p.a.	75
Growth in the FTSE 100 Share Index + 20% p.a.	100
Actual outcome: Growth in the FTSE 100 Share Index + 29.23% p.a.	100

The criteria as approved by shareholders was significantly overachieved, and so the Remuneration Committee recommended 100% vesting.

Cash Long-Term Incentive Plan ("Cash LTIP") (Audited)

Luke Jensen was granted an award under the Cash LTIP scheme in February 2017, prior to his appointment as an Executive Director. The Cash LTIP is an amount of money that is based on the value of 143,632 of the Company's shares. The final cash amount that Luke Jensen was eligible to receive depended on the extent to which the Company achieved a performance target linked to the number of Ocado Solutions deals signed by the Group during the performance period.

The Cash LTIP had a three-year performance period. The performance conditions for the 2017 Cash LTIP allow for the early payment of the award in the event that the maximum performance conditions are satisfied prior to the end of the 2017/18 Financial Year. The performance conditions were satisfied in full during the period and the award vested on 15 March 2019. Pay-out of the full value of the award was based on the average share price of the Company's shares in the twenty business days prior to the pay-out date, being 1,001 pence per share.

Share Incentive Plan (SIP)

The 2016 award of Free Shares made under the Share Incentive Plan (the "SIP") became unrestricted during the period on 15 September

2019. Certain Matching Shares also became unrestricted during the period. Free Shares and Matching Shares awarded under the SIP are subject to a three-year forfeiture period starting from the date of grant. This means that if an Executive Director ceases to be employed by the Group during the three-year period, the Free Shares and Matching Shares will be forfeited. Partnership Shares purchased under the SIP are not included in the total remuneration table as these are purchased by the Executive Directors from their salary, rather than granted by the Company as an element of remuneration. Only the value of Free Shares and Matching Shares that became unrestricted during the period are shown in the total remuneration table. The value shown is the value of the shares on the date that they became unrestricted. Unrestricted shares can be held in trust under the SIP for as long as the Executive Director remains an employee of the Company.

Recovery of Sums Paid (Audited)

No sums paid or payable to the Executive Directors were sought to be recovered by the Group.



Non-Executive Directors

Total fees (Audited)

The fees paid to the Non-Executive Directors and the Chairman during the period are set out in the remuneration table below. The Non-Executive Directors received no remuneration from the Group other than their annual fee.

Non-Executive Director	Fees		Taxable Benefits		Pension Entitlements		Annual Bonus		Long-term Incentives		Recovery of Sums Paid		Total Remuneration	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Lord Rose	267	200	—	—	—	—	—	—	—	—	—	—	267	200
Ruth Anderson	54	65	—	—	—	—	—	—	—	—	—	—	54	65
Jörn Rausing	61	52	—	—	—	—	—	—	—	—	—	—	61	52
Doug McCallum	28	56	—	—	—	—	—	—	—	—	—	—	28	56
Andrew Harrison	86	59	—	—	—	—	—	—	—	—	—	—	86	59
Emma Lloyd	61	52	—	—	—	—	—	—	—	—	—	—	61	52
Julie Southern	71	13	—	—	—	—	—	—	—	—	—	—	71	13
John Martin	33	—	—	—	—	—	—	—	—	—	—	—	33	—
Claudia Arney	16	—	—	—	—	—	—	—	—	—	—	—	16	—
Total	677	497	—	—	—	—	—	—	—	—	—	—	677	497

(1) John Martin joined the Board with effect from 1 June 2019.

(2) Claudia Arney joined the Board with effect from 1 September 2019.

(3) Doug McCallum retired from the Board with effect from 1 June 2019.

(4) Ruth Anderson retired from the Board with effect from 30 September 2019.

(5) Julie Southern's 2018 fees have been restated to £13,000 from £11,000.

(6) Due to an administrative error, a Non-Executive Director was overpaid £12,583 in the period. This amount will be repaid by the next audited period.

The remuneration arrangements for the Non-Executive Directors (except the Chairman) were reviewed by the Executive Directors and the Chairman during the period and the basic fees for Non-Executive Directors were increased to £65,000 (2018: £52,000), whilst the fee for chairing a Committee was increased to £16,000 (2018: £13,000). The Chairman does not receive a fee for his role as Nomination Committee Chairman. A Senior Independent Director fee of £15,000 was also introduced during the period.

The Chairman's fee was reviewed by the Remuneration Committee and was increased to £300,000 (2018: £200,000). This is the first time the Chairman's fee has increased since the Chairman's appointment in March 2013.

Other Remuneration for the Non-Executive Directors (Audited)

In addition to the fees, the Non-Executive Directors are entitled to a staff shopping discount in line with the Group's employees.

The Company has obtained a written confirmation from each Non-Executive Director that they have not received any other items in the nature of remuneration from the Group, other than those already referred to in this report.

Recovery of Sums Paid (Audited)

No sums paid or payable to the Non-Executive Directors were sought to be recovered by the Group.

Other Remuneration Disclosures

Executive Directors' Service Contracts

Each of the Executive Directors has a service contract with the Group. The principal terms of these contracts are as follows:

Executive Director	Position	Effective date of contract	Notice period	
			From Company	From Director
Tim Steiner	Chief Executive Officer	23 June 2010	12 months	6 months
Duncan Tatton-Brown	Chief Financial Officer	29 June 2012	12 months	6 months
Mark Richardson	Chief Operating Officer	27 February 2012	12 months	6 months
Neill Abrams	Group General Counsel and Company Secretary	23 June 2010	12 months	6 months
Luke Jensen	CEO Ocado Solutions	30 January 2017	12 months	6 months

The contracts provide for payment in lieu of notice of one times basic salary only (and do not include other fixed elements of pay, which are permitted by the policy).



Directors' Remuneration Report

Continued

Non-Executive Directors' Letters of Appointment

The Chairman and the Non-Executive Directors do not have service contracts and were appointed by letter of appointment for an initial period of three years, subject to annual reappointment at the annual general meeting and usually for a maximum of nine years. Copies of the letters of appointment and the service contracts of the Directors are available for inspection at the Company's registered office.

Director	Date of Original Appointment	Date of Reappointment	Notice Period	Expiry of Nine Year Term
Lord Rose	11 March 2013	1 May 2019	6 Months	March 2022
Andrew Harrison	1 March 2016	1 May 2019	1 Month	March 2025
Emma Lloyd	1 December 2016	1 May 2019	1 Month	December 2025
Jörn Rausing	13 March 2003	1 May 2019	1 Month	N/A
Julie Southern	1 September 2018	1 May 2019	1 Month	September 2027
John Martin	1 June 2019	N/A	1 Month	June 2028
Claudia Arney	1 September 2019	N/A	1 Month	September 2028

Director Retirement Arrangements and Payments for Loss of Office (Audited)

As announced on 28 March 2019, it was determined in accordance with the Directors' Remuneration Policy that the arrangements set out below should apply in relation to Doug McCallum and Ruth Anderson's remuneration on retirement.

Element of Remuneration	Treatment
Remuneration Payments	All outstanding fees were paid to Doug McCallum and Ruth Anderson up to 1 June 2019 and 30 September 2019 respectively, in accordance with the terms of their letters of appointment. No payments are expected after the date of retirement.
Payment for Loss of Office	No payment for loss of office or other remuneration payment was made or is expected to be made to Doug McCallum or Ruth Anderson.
Share Schemes	At the time of retirement, neither Doug McCallum or Ruth Anderson were participants in a Group share scheme.

Director Appointment Arrangements (Audited)

As announced on 29 March 2019, John Martin and Claudia Arney were appointed to the Board as Non-Executive Directors with effect from 1 June 2019 and 1 September 2019 respectively. John Martin and Claudia Arney's remuneration is in line with the Directors' Remuneration Policy. On appointment, John Martin and Claudia Arney's basic annual fee was £65,000, which was in line with the other Non-Executive Directors. John Martin and Claudia Arney will not receive any other benefits or payments, in line with the Directors' Remuneration Policy.

Payments to Past Directors (Audited)

None.

External Remuneration for Executive Directors

As at the date of this Annual Report:

- In addition to his role as Executive Director of the Company, Duncan Tatton-Brown is a non-executive director of Karakuri Ltd and Trainline Plc. During the Financial Year, he received fees of £35,937.50 for his role at Trainline.
- In addition to his role as Executive Director of the Company, Neill Abrams is an alternate non-executive director of Mr Price Group Limited, a JSE Top 40 company listed on the Johannesburg Stock Exchange. Neill does not receive any remuneration for carrying out that role. In addition to his role as Executive Director of the Company.

- Mark Richardson is a non-executive director of Paneltex Limited. This role does not involve any remuneration paid or payable to Mark.
- In addition to his role as Executive Director of the Company, Luke Jensen is a Non-Executive director of Hana Group SAS, registered in France, and ASOS plc, an AIM listed company. During the financial year, he received Board attendance fees of €25,417 for his role in Hana Group and £4,538 for his role at ASOS.

Director Shareholdings (Audited)

The table opposite shows the beneficial interests in the Company's shares of Directors serving at the end of the period, and their connected persons, as shareholders and as discretionary beneficiaries under trusts. The table also shows current compliance with the Director shareholding requirements in the Directors' Remuneration Policy as at the date of this Annual Report. All Directors comply with the Director shareholding requirements.



Name	Ordinary Shares of 2 pence each held at 1 December 2019		Ordinary Shares of 2 pence each held at 2 December 2018		Minimum shareholding requirement (% of Base Salary or Fee)	Met minimum shareholding requirement?	Basis for compliance
	Direct Holding	Indirect Holding	Direct Holding	Indirect Holding			
Executive Directors							
Tim Steiner	23,589,652	8,020	23,475,936	7,411	400	Yes	Indirect and direct shareholdings
Duncan Tatton-Brown	1,453,476	67,851	1,400,753	67,235	300	Yes	Indirect and direct shareholdings
Mark Richardson	1,534,755	12,984	1,482,032	12,361	300	Yes	Indirect and direct shareholdings
Neill Abrams	2,336,180	1,265,891	3,050,825	1,265,268	300	Yes	Indirect and direct shareholdings
Luke Jensen	117,314	77,210	94,656	83,109	300	Yes	Indirect and direct shareholdings
Non-Executive Directors							
Lord Rose	602,284	–	1,202,284	–	100	Yes	Indirect and direct shareholdings
Jörn Rausing	–	69,015,602	–	69,015,602	100	Yes	Indirect shareholdings
Andrew Harrison	18,166	–	18,166	–	100	Yes	Direct shareholdings
Emma Lloyd	17,300	–	17,300	–	100	Yes	Direct shareholdings
Julie Southern	3,779	–	3,779	–	100	N/A	N/A
John Martin	–	–	–	–	100	N/A	N/A
Claudia Arney	5230	–	–	–	100	N/A	N/A

- (1) There have been no changes in the Directors' interests in the shares issued or options granted by the Company and its subsidiaries between the end of the period and the date of this Annual Report, except shares held pursuant to the SIP, as set out on pages 128 to 129.
- (2) No Director had an interest in any of the Company's subsidiaries at the beginning or end of the period.
- (3) On 13 May 2016, in respect of various contracts for the transfer of shares (as described on pages 235 and 238 of the Prospectus), Tim Steiner delayed the date on which completion under the contracts for transfer would take place to 30 June 2019, or such later date as the parties may agree. On 2 June 2019, Tim Steiner agreed again to extend the completion dates for the contracts to future dates.
- (4) On 11 May 2016, in respect of various contracts for the transfer of shares (as described on pages 235 and 238 of the Prospectus), Neill Abrams delayed the date on which completion under the contracts for transfer would take place to 30 June 2019, or such later date as the parties may agree. The contracts completed on 30 June 2019.
- (5) The Executive Director shareholdings have increased during the period due to the vesting of the 2016 LTIP awards. Read more on page 127 and 128.
- (6) Julie Southern, John Martin and Claudia Arney were appointed on 1 September 2018, 1 June 2019 and 1 September 2019 respectively. Non-Executive Directors are expected to hold shares equivalent to one year's annual fee. This holding can be built up over three years from appointment. Therefore, while John Martin and Claudia Arney do not hold the requisite number of shares to comply with the shareholding requirement currently, they are compliant with the policy.
- (7) The assessment for shareholding compliance is based on the current annualised salary or fee (as set out in the total remuneration tables) which applied on 28 January 2020 (being the last practicable date prior to the publication of this Annual Report) and the higher of the original purchase price(s) or the current market price (being 1,308 pence per share on 28 January 2020), of the relevant shareholdings.
- (8) Where applicable, the above indirect holdings include SIP Partnership and Free Shares held under the SIP, which are held in trust.
- (9) The indirect holding for Neill Abrams includes holdings by Caryn Abrams (wife of Neill Abrams) who holds 78,109 (2018: 78,109) ordinary shares and as a discretionary beneficiary of a trust holding 74,100 (2018: 133,100) ordinary shares, Daniella Abrams (daughter of Neill Abrams) who holds 1,363 (2018: 2,143) ordinary shares, Mia Abrams (daughter of Neill Abrams) who holds 2,143 (2018: 2,143) ordinary shares, Joshua Abrams (son of Neill Abrams) who holds 2,143 (2018: 2,143) ordinary shares.
- (10) The indirect holding for Duncan Tatton-Brown includes a holding by Kate Tatton-Brown (wife of Duncan Tatton-Brown) who holds 59,889 (2018: 59,889) ordinary shares (however this was inadvertently stated as 49,889 in the 2018 Annual Report).
- (11) The indirect holding for Mark Richardson includes a holding by Rebecca Richardson (wife of Mark Richardson) who holds 4,970 (2018: 4,970) ordinary shares.
- (12) The indirect holding for Luke Jensen includes a holding by Sandrine Jensen (wife of Luke Jensen) who holds 74,670 (2018: 74,670) ordinary shares.

Director Interests in Share Schemes (Audited)

LONG-TERM INCENTIVE PLAN (LTIP) (AUDITED)

At the end of the period, the Executive Directors' total LTIP awards were as follows:

Director	Type of Interest	Date of Grant	Basis on which Award is made (% of Salary)	Number of Shares	Face Value of Award (£)	End of Performance Period	Expected Vesting Date
Tim Steiner	Conditional shares	20/02/17	200	452,881	1,155,658	01/12/19	20/02/20
	Conditional shares	01/03/18	200	219,621	1,187,996	03/12/20	18/03/21
Duncan Tatton-Brown	Conditional shares	20/02/17	150	209,972	535,805	01/12/19	20/02/20
	Conditional shares	01/03/18	150	101,769	550,499	03/12/20	18/03/21
Mark Richardson	Conditional shares	20/02/17	150	209,972	535,805	01/12/19	20/02/20
	Conditional shares	01/03/18	150	101,769	550,499	03/12/20	18/03/21
Neill Abrams	Conditional shares	20/02/17	120	141,077	359,999	01/12/19	20/02/20
	Conditional shares	01/03/18	120	68,326	369,596	03/12/20	18/03/21
Luke Jensen	Conditional shares	20/02/17	150	206,913	527,996	01/12/19	20/02/20
	Conditional shares	01/03/18	150	97,609	527,999	03/12/20	18/03/21



Directors' Remuneration Report

Continued

Vested: The 2016 LTIP awards had a vesting date of 20 March 2019 for a three-year performance period that ended with the 2017/18 Financial Year. As explained in the 2018 Annual Report, the Remuneration Committee reviewed the performance against the award's four equally weighted performance conditions, which were Retail Revenue, Adjusted Retail EBT*, Platform Operational Efficiency and Platform Capital Efficiency for the 2017/18 Financial Year. Achievement against the performance targets was 50%.

The performance period for the 2017 LTIP awards finished in the year, although these awards are not capable of vesting until 20 February 2020.

→ More detail can be found on page 123

* This measure is used by the Remuneration Committee to assess management performance for the LTIP only. It is not considered an Alternative Performance Measure.

GROWTH INCENTIVE PLAN (GIP) (AUDITED)

→ For details on the operation of the GIP please see page 106

Vested: The 2014 GIP vested in May 2019 at 100% of maximum. For further details please see page 124.

VALUE CREATION PLAN (VCP) (AUDITED)

The VCP was approved by shareholders on 1 May 2019. The scheme aligns the remuneration of Executive Directors with the value generated for shareholders.

The value delivered to participants represents 2.75% of the total value created for shareholders above a minimum return of 10% TSR per annum ("Threshold TSR") in line with the scheme rules. The Threshold TSR at the first measurement date is £15.16. As at 21 January 2020, the share price of the Company was £12.94 (based on a 30 day average). Therefore, the indicative value of VCP awards as at 21 January 2020 is £0 for all participants. The first measurement date where share awards will formally accrue will be 30 days post the announcement of the Financial Year results on the average closing share price for that 30 day period.

The final amount of the nil-cost options that accrue at the first Measurement Date will be fully disclosed in our 2020 Annual Report. Please see page 104 for the Remuneration at a Glance section and page 107 of the Summary Policy table for Executive Directors for further details on the operation of the VCP.

Executive Share Option Scheme and 2014 Executive Share Option Scheme (Audited)

At the end of the period, the Executive Directors held options under the ESOS or 2014 ESOS as follows:

Director	Type of Interest	Date of Grant	Number of Share Options	Exercise Price (£)	Face Value of Grant (£)	Exercise Period
Duncan Tatton-Brown	Option	12/08/13	9,923	3.02	29,967	08/07/16 – 07/07/23
Luke Jensen	Option	15/03/17	11,709	2.562	29,998	15/03/20 – 14/03/27

Share Incentive Plan (Audited)

At the end of the period, interests in shares held by the Executive Directors under the SIP were as follows:

Director	Partnership Shares Acquired in the Year	Matching Shares Awarded in the Year	Free Shares Awarded in the Year	Total Face Value of Free Shares and Matching Shares Awarded in the Year (£)		SIP Shares that Became Unrestricted in the Period	Total Unrestricted SIP Shares Held at 01/12/2019
				Total SIP Shares Held 01/12/2019	Shares Held 01/12/2019		
Tim Steiner	162	23	267	3,843	8,180	1,418	6,113
Duncan Tatton-Brown	162	23	267	3,843	8,122	1,407	6,055
Mark Richardson	162	23	267	3,844	8,173	1,406	6,106
Neill Abrams	162	23	267	3,844	7,392	1,197	5,553
Luke Jensen	163	23	267	3,843	2,634	0	660

(1) Unrestricted shares are those which have been held beyond the three-year forfeiture period.

(2) The value of the share awards made under the SIP is based on the middle market quotation of a share on the trading day immediately preceding the date of grant.

Granted: The Directors continued their SIP participation during the period. The SIP scheme is made available to all employees. The SIP allows for the grant of a number of different forms of awards. An award of Free Shares was made to the Executive Directors in September 2019 under the terms of the SIP and the Directors' Remuneration Policy. "Free shares" of up to £3,600 of ordinary shares may be allocated to any employee in any year. Free Shares are allocated to employees equally on the basis of salary, as permitted by the relevant legislation.

An award of Matching Shares was made to those Executive Directors who purchased Partnership Shares (using deductions taken from their gross basic pay) under the terms of the SIP and in accordance with the Directors' Remuneration Policy.

→ For more details about the SIP, please see page 124

The Executive Directors continued their membership in the SIP after the end of the period and were therefore awarded further Matching Shares pursuant to the SIP rules. Between the end of the period and 28 January 2020, being the last practicable date prior to the publication of this Annual Report, the Executive Directors acquired or were awarded further shares under the SIP as set out in the table below:



Director	Partnership Shares Acquired	Matching Shares Awarded	Free Shares Award	Total Face Value of Free Shares and Matching Shares (£)	Total SIP Shares Held at 28/01/2020
Tim Steiner	24	3	0	38	8,207
Duncan Tatton-Brown	24	3	0	38	8,149
Mark Richardson	24	4	0	51	8,201
Neill Abrams	24	4	0	51	7,420
Luke Jensen	24	3	0	38	2,661

(1) The value of the share awards made under the SIP is based on the middle market quotation of a share on the trading day immediately preceding the date of grant.

Vested: → For details of Free Shares and Matching Shares that became unrestricted in the period, see page 128.

Sharesave Scheme (Audited)

At the end of the period, the Executive Directors' option interests in the Sharesave scheme were as follows:

Director	Type of Interest	Date of Grant	Number of Share Options	Exercise Price (£)	Face Value (£)	Exercise Period
Neill Abrams	Options	27/08/19	1,610	11.17	17,991	01/12/22 – 01/05/23

Granted: Neill Abrams elected to participate in the 2019 Ocado Sharesave Scheme, where he was granted options to purchase ordinary shares in the Company on the same terms as all other employees, at an exercise price of £11.17 per ordinary share, as set out in the table above. The exercise price for an option was the market value of the Company's shares for the five dealing days during the Sharesave application window, less a discount of 10%.

Vested: A savings contract under the Sharesave Scheme matured after period end, on 1 December 2019. Tim Steiner, Duncan Tatton-Brown, Mark Richardson and Neill Abrams each held 7,894 options at this date.

The value of the Directors' Sharesave awards at 1 December 2019 is the value of the savings made by each Director under the savings contract. At the time of vesting on 1 December 2019, the share price (of 1,325 pence per share) was higher than the exercise price (of 228 pence per share), meaning that the value of the options on vesting was £104,596. Accordingly, this value is shown in the Total Remuneration table for each of the participants.

Dilution

Dilution Limits

Awards granted under the Company's Sharesave and SIP schemes are met by the issue of new shares when the options are exercised or shares granted. Awards granted under the VCP may be met by the issue of new shares, the transfer of shares from treasury, or the purchase or transfer of existing shares by the EBT (where available). Awards vesting under the LTIP are typically satisfied by the issue of new shares and transfer of existing shares by the EBT.

There are limits on the number of shares that may be allocated under the Company's share plans. These dilution limits were recommended by the Remuneration Committee and incorporated into the rules of the various share schemes, which have been approved by the Company's shareholders.

The dilution limits restrict the commitment to issue new ordinary shares or reissue treasury shares under all share schemes of the Group to 10% of the nominal amount of the Company's issued share capital and under the LTIP and the VCP (and any other selective share scheme) to 5% of the nominal amount of the issued share capital of the Company in any rolling ten-year period. These limits are consistent with the guidelines of institutional shareholders.

Impact on Dilution

The Company monitors the number of shares issued under these schemes and their impact on dilution. The charts below show the Company's commitment, as at the last practicable date prior to the publication date of this Annual Report being 28 January 2020, to issue new shares in respect of its share schemes assuming all performance conditions are met, all award holders remain in employment to the vesting date and all awards are settled in newly issued shares. For these purposes, no account is taken of ordinary shares allocated prior to the Company's Admission.

All Share Plans Discretionary Share Plans





Directors' Remuneration Report

Continued

Shareholder Approval and Votes at AGM

The 2019 Directors' Remuneration Report will be subject to a shareholder vote at the AGM. Entitlement of a Director to remuneration is not made conditional on this resolution being passed.

The table below sets out the actual voting in respect of resolutions regarding remuneration at the previous annual general meeting.

Resolution Text	Votes For	% For	Votes Against	% Against	Total Votes	Votes Withheld
2019 Annual General Meeting						
Approve the 2019 Directors' Remuneration Policy	440,260,450	75.8	140,813,977	24.2	581,074,427	3,596,366
Approve the 2018 Directors' Remuneration Report	436,208,712	74.6	148,357,899	25.4	584,566,611	104,182

(1) A withheld vote is not a vote in law and is not counted in the calculation of the proportion of votes cast for and against a resolution.

Shareholder Consultation and 2019 Annual General Meeting Voting

Resolution 2 – Policy and Resolution 19 – Value Creation Plan

Ocado's Remuneration Policy ("the Policy") was approved at the 2019 annual general meeting with broad shareholder support of 75.8% of votes in favour and 24.2% of votes against the Policy. The Company understands that this outcome was attributable, in large part, to concerns regarding the implementation of a Value Creation Plan ("VCP") and the potential level of quantum available to Executive Directors under this Plan. It was therefore expected that the votes in favour of Resolution 19 (the Ocado Value Creation Plan, 75.7%) would be similar to that for the Policy.

Ocado's 2019 Policy was subject to an extensive consultation with all major shareholders and investor bodies prior to the 2019 annual general meeting. Investors are thanked for their time and input during this consultation process. It was important to meet as many shareholders as possible and to hear their views on such an important topic. It was apparent at the time of the consultation that there were differing views amongst shareholders on the suitability of a VCP, which were ultimately reflected in the votes against these particular resolutions.

During the shareholder engagement process, feedback was carefully considered and, where appropriate, reflected in subsequent amendments to the Policy and the VCP. Examples of these amendments include a reduction in the CEO's share of the VCP and increasing the hurdle of the VCP. Further details on the consultation process and discussions can be found in the Company's 2018 Annual Report on pages 110 and 111. It was encouraging to see the majority of our shareholders understood Ocado's need for a non-standard incentive plan that aims to drive strong and sustainable growth over the long-term, whilst simultaneously motivating and rewarding a highly entrepreneurial leadership team. The Company believes that the VCP is aligned with Ocado's strategy and business needs and hence remains the right vehicle to remunerate our Executives. Pay-outs under the VCP are directly linked to Company performance, whereby substantial growth must first be delivered to shareholders before Executives are rewarded. For example, for any vesting to occur in year 3 of the VCP, the Company's share price must be greater than or equal to £18.35, which represents about 31% growth since the launch of the VCP (when the share price was £13.97).

In conclusion, it is understood why some shareholders were unsupportive of these resolutions. However, in line with the majority of shareholders, it is firmly believed that the 2019 Remuneration Policy is fit for purpose and in the best interests of the Company and its shareholders. Therefore, the Committee and the Board believe any modifications to the Policy at this time would not be the right course of action for Ocado.

Resolution 3 – Directors' Remuneration Report

In relation to the annual approval of the Directors' Remuneration Report, the Committee has received feedback for a number of years from shareholders around the limited disclosure of annual bonus and LTIP targets. It is understood that the primary reason 25.4% of shareholders voted against this resolution (74.6% voted for) was due to a lack of satisfaction with the level of disclosure of the targets under both incentive plans. The Committee recognises that the Company has historically struggled with balancing the conflicting needs for both commercial confidentiality and transparency in relation to targets. However, the new Remuneration Policy approved at the 2019 annual general meeting provides for greater transparency to shareholders under the new AIP and VCP with regards to performance conditions and their satisfaction. The Committee is confident that the concerns of these shareholders will be addressed going forward.

Resolution 23 – Chairman's Share Matching Award

The Board noted that 77.0% of shareholders voted for the amendments to the Chairman's Share Matching Award. Ocado's Remuneration Committee and the Board continue to believe that it was reasonable to remove the sale restrictions on Lord Rose's "Acquired Shares", given six years had elapsed since the shares were purchased by him and in light of the Chairman's dedication to the Company over this period. It is also noted the Chairman's "Matching Shares" continue to be subject to an ongoing sale restriction for one year post his ceasing to be a Director of the Company. This post-cessation holding requirement is in line with the 2018 Code and whilst its application is not common for a Non-Executive Chairman, the Committee believes that this approach ensures long-term alignment. There is no intention to remove the restrictions on the Matching Shares in the future, thereby ensuring that the interests of the Chairman and those of the Company continue to be aligned going forward.



Basis of Preparation and Audit

This report is a Directors' Remuneration Report for the 52 weeks ended 1 December 2019, prepared for the purposes of satisfying Section 420(1) and Section 421(2A) of the Companies Act 2006. It has been drawn up in accordance with the Companies Act 2006 and the Code, the Regulations and the Listing Rules.

In accordance with section 497 of the Companies Act 2006 and the Regulations, certain parts of this Directors' Remuneration Report (where indicated) have been audited by the Company's auditor, Deloitte LLP.

A copy of this Directors' Remuneration Report will be available on the Corporate Website, www.ocadogroup.com.

This Directors' Remuneration Report is approved by the Board and signed on its behalf by:

Andrew Harrison

Remuneration Committee Chairman
Ocado Group plc
11 February 2020





Directors' Report

Introduction

This section of the Annual Report is a Directors' Report required by the Companies Act 2006 to be prepared by the Directors for the Company and the Group.

→ A full list of the Board during the period and their biographies can be found on pages 72 and 73

Directors' Report Disclosures

The Board felt that some of the matters required to be disclosed in the Directors' Report are of strategic importance and are therefore included in the Strategic Report on pages 12 to 65 in accordance with the Companies Act 2006.

These matters, together with those referenced in the table below are incorporated by reference into this Directors' Report.

Topic	Section of the Report	Page
Fair review of the Company's business	Management Report, as defined in the Directors' Report	12-131
Principal risks and uncertainties	Management Report, as defined in the Directors' Report	48-52
Strategy	Strategic Report	12-65
Business Model	Strategic Report	12-65
Gender breakdown	Our People	62
Important events impacting the business	Strategic Report	12-65
Likely future developments	Strategic Report	12-65
Financial key performance indicators	Key Performance Indicators	37-39
Non-financial key performance indicators	Key Performance Indicators	37-39
Financial instruments	Note 4.8 of the consolidated financial statements	189-191
Environmental matters	Corporate Responsibility Report	54-57
Employee disabilities	Corporate Responsibility Report	54-57
Company's employees	Corporate Responsibility Report Stakeholder Engagement	54-59
Social, community and human rights issues	Corporate Responsibility Report	54-57
s172 and relationships with customers, suppliers and others	Stakeholder Engagement	58-59
Greenhouse gas emissions	Corporate Responsibility Report	54-57
Directors' induction and training	Board Induction and Professional Development	81

Information Required by Listing Rules 9.8.4 (R)

Topic	Section of the Report	Page
Directors' Interests in Shares	Remuneration Report	127
Going Concern and Viability Statements	Strategic Report	53
Long-term incentive schemes	Remuneration Report	123-128

Information Required by DTR 7.2

Topic	Section of the Report	Page
Corporate Governance Statement	Corporate Governance Report	70-87

Disclosure Guidance and Transparency Rule 4.1.8

The Strategic Report and the Directors' Report (or parts thereof), together with sections of this Annual Report incorporated by reference, are the "Management Report" for the purposes of DTR 4.1.8.

This Annual Report

The Directors are required under the Companies Act 2006 to prepare a Strategic Report for the Company and the Group. The Strategic Report contains the Directors' explanation of the basis on which the Group preserves and creates value over the longer term and the strategy for delivering the objectives of the Group. The Companies Act 2006 requires that the Strategic Report must:

- contain a fair review of the Group's business and contain a description of the principal risks and uncertainties facing the Group; and
- be a balanced and comprehensive analysis of the development and performance of the Group's business during the financial year and the position of the Group's business at the end of that year, consistent with the size and complexity of the business.

The information that fulfils the strategic report requirements is set out in the Strategic Report on pages 12 to 65. The Non-Financial Information Statement on page 138 forms part of the Strategic Report.

The Strategic Report and the Directors' Report, together with the sections of this Annual Report incorporated by reference, have been drawn up and presented in accordance with and in reliance upon applicable English company law and the liabilities of the Directors in connection with that report shall be subject to the limitations and restrictions provided by such law.

→ For an explanation of how the Board satisfies itself that this Annual Report meets the disclosure requirements, refer to the Corporate Governance Statement on pages 85 to 87 and the Statement of Directors' Responsibility on page 137



Amendment of the Articles

The Articles, which govern a number of constitutional aspects of the Company's management, are to be put to the members for amendment at the AGM. This proposed amendment will bring the current Articles (which have not been updated since the Admission) in line with updated corporate practices such as introducing gender neutral language, the ability to hold electronic general meetings and amending the Company's net borrowing limits. Please see the Notice of Meeting resolution number 26 for more information on this.

Appointment and Replacement of Directors

The appointment and replacement of Directors of the Company is governed by the Articles.

Appointment of Directors: A Director may be appointed by the Company by ordinary resolution of the shareholders or by the Board. The Board or any Committee authorised by the Board may from time to time appoint one or more Directors to hold any employment or executive office for such period and on such terms as they may determine and may also revoke or terminate any such appointment. A Director appointed by the Board holds office only until the next annual general meeting of the Company and is then eligible for reappointment.

Retirement of Directors: At every annual general meeting of the Company, each Director shall retire from office and may offer himself or herself for reappointment by the members.

Removal of Directors by Special Resolution: The Company may, by special resolution, remove any Director before the expiration of his or her period of office.

Vacation of Office: The office of a Director shall be vacated if: (i) they resign; (ii) their resignation is requested by all of the other Directors (not fewer than three in number); (iii) they have been suffering from mental or physical ill health and the Board resolves that their office be vacated; (iv) they are absent without the permission of the Board from meetings of the Board (whether or not an alternate Director appointed by them attends) for six consecutive months and the Board resolves that their office is vacated; (v) they become bankrupt; (vi) they are prohibited by law from being a Director; (vii) they cease to be a Director by virtue of the Companies Act 2006; or (viii) they are removed from office pursuant to the Articles.

→ For a description of any changes of the Company's Directors during the period see the Corporate Governance Report on pages 70 to 87

Directors' Insurance and Indemnities

The Company maintains directors' and officers' liability insurance cover for its Directors and officers as permitted under the Articles and the Companies Act 2006. Such insurance policies were renewed during the period and remain in force as at the date of this Annual Report. The Company also agrees to indemnify the Directors under an indemnity deed with each Director, which contains provisions that are permitted by the director liability provisions of the Companies Act 2006 and the Articles. An indemnity deed is usually entered into by a Director at the time of his or her appointment to the Board.

Share Capital

The Company's authorised and issued ordinary share capital as at 1 December 2019 comprised a single class of ordinary shares. The shares have a nominal value of 2 pence each. The ISIN of the shares is GB00B3MBS747. The LEI of the Company is 213800LO8F61YB8MBC74 As at 28 January 2020, being the last practicable date prior to publication of this report, the Company's issued share capital consisted of 711,072,430 issued ordinary shares, compared with 698,309,337 issued ordinary shares per the 2018 annual report. Details of movements in the Company's issued share capital can be found in Note 4.10 to the Consolidated Financial Statements. During the period, shares in the Company were issued to satisfy options and awards under the Company's share and incentive schemes, as set out in Note 4.10 to the Consolidated Financial Statements. There are no branches of the Company.

Rights Attached to Shares

The Company's shares when issued are credited as fully paid and free from all liens, equities, charges, encumbrances and other interests. All shares have the same rights (including voting and dividend rights and rights on a return of capital) and restrictions as set out in the Articles, described below.

Except in relation to dividends that may have been declared and rights on a liquidation of the Company, the shareholders have no rights to share in the profits of the Company.

The Company's shares are not redeemable. However, the Company may purchase or contract to purchase any of the shares on or off-market, subject to the Companies Act 2006 and the requirements of the Listing Rules, as described below.

No shareholder holds shares in the Company which carry special rights with regard to control of the Company. There are no shares relating to an employee share scheme which have rights with regard to control of the Company that are not exercisable directly and solely by the employees, other than in the case of the JSOS, where share interests can be transferred to a spouse, civil partner or lineal descendant of a participant in the JSOS or certain trusts under the rules of the JSOS (as noted below).

Voting Rights

Each ordinary share carries one right to vote at a general meeting of the Company. At any general meeting, a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is demanded. On a show of hands, every member who is present in person or by proxy at a general meeting of the Company shall have one vote. On a poll, every member who is present in person or by proxy shall have one vote for every share of which they are a holder. The Articles provide a deadline for submission of proxy forms of no less than 48 hours before the time appointed for the holding of the meeting or adjourned meeting. No shareholder shall be entitled to vote in respect of a share held by him or her if any call or sum then payable by him or her in respect of such share remains unpaid or if a member has been served a restriction notice, described on the following page.



Directors' Report

Continued

JSOS Voting Rights: Of the issued ordinary shares, as at 1 December 2019, 869,358 (2018: 6,401,306) were held by Wealth Nominees Limited and 9,981,158 were held by Numis Nominees (Client) Ltd, both on behalf of Estera Trust (Jersey) Limited, the independent company which is the trustee of Ocado's employee benefit trust (the "EBT Trustee"). The EBT Trustee has waived its right to exercise its voting rights in respect of 9,981,158 of these ordinary shares, although it may at the request of a participant vote in respect of 869,358 ordinary shares which have vested under the JSOS and remain in the trust at period end. The total of 10,850,516 ordinary shares held by the EBT Trustee are treated as treasury shares in the Group's Consolidated Balance Sheet in accordance with IAS 3 – Financial Instruments: Presentation. As such, calculations of earnings per share for Ocado exclude the ten ordinary shares held by the EBT Trustee. Note 4.10 to the Consolidated Financial Statements provides more information on the Group's accounting treatment of treasury shares.

Restrictions on Transfer of Securities

The Company's shares are freely transferable, save as set out below. The transferor of a share is deemed to remain the holder until the transferee's name is entered in the register. The Board can decline to register any transfer of any share that is not a fully paid share. The Company does not currently have any partially paid shares. The Board may also decline to register a transfer of a certificated share unless the instrument of transfer: (i) is duly stamped or certified or otherwise shown to be exempt from stamp duty and is accompanied by the relevant share certificate; (ii) is in respect of only one class of share; and (iii) if to joint transferees, is in favour of not more than four such transferees. Registration of a transfer of an uncertificated share may be refused in the circumstances set out in the uncertificated securities rules (as defined in the Articles) and where, in the case of a transfer to joint holders, the number of joint holders to whom the uncertificated share is to be transferred exceeds four.

Restriction on Transfer of JSOS Interests: Participants' interests under the JSOS are generally non-transferable during the period beginning on acquisition of the interest and ending at the expiry of the relevant restricted period as set out in the JSOS rules. However, interests can be transferred to a spouse, civil partner or lineal descendant of a participant; a trust under which no person other than the participant or their spouse, civil partner or lineal descendant has a vested beneficial interest; or any other person approved by the EBT

Trustee. If a participant purports to transfer, assign or charge his or her interest other than as set out above, the EBT Trustee may acquire the participant's interest for a total price of £1.

Other than as described above and on pages 126 to 127 with respect to agreements concerning the Directors' shareholdings, the Company is not aware of any agreements existing at the end of the period between holders of securities that may result in restrictions on the transfer of securities or that may result in restrictions on voting rights.

Powers for the Company to Buy Back its Shares

The Company was authorised by shareholders on 1 May 2019, at the 2019 annual general meeting, to purchase in the market up to 10% of its issued ordinary shares (excluding any treasury shares), subject to certain conditions laid out in the authorising resolution. This standard authority is renewable annually; the Directors will seek to renew this authority at the AGM. The Directors did not exercise their authority to buy back any shares during the period.

Powers for the Company to Issue its Shares

The Directors were granted authority at the 2019 annual general meeting on 1 May 2019, to allot shares in the Company under two separate resolutions: (i) up to one-third of the Company's issued share capital; and (ii) up to two-thirds of the Company's issued share capital in connection with a rights issue. These authorities apply until the end of the AGM (or, if earlier, until 1 August 2020).

The Directors were also granted authority at the 2019 annual general meeting on 1 May 2019 to disapply pre-emption rights. This resolution (which is in accordance with the guidance issued by the Pre-Emption Group (the "PEG Principles")) sought the authority to disapply pre-emption rights over 5% of the Company's issued ordinary share capital. A further authority was granted to the Directors to disapply pre-emption rights for an additional 5% for certain acquisitions or specified capital investments as allowed by the PEG Principles. The Company sought similar authorities at the 2018 annual general meeting, though not in respect of the additional 5%.

The Company will, at the AGM, continue to seek authority to allot shares on the basis of the authorities sought at the 2019 annual general meeting. The Company believes such approach is appropriate given that it follows the guidance set by the Pre-Emption Group and Investment Association on the allotment of shares.

Significant Shareholders

During the period the Company has received notifications, in accordance with Disclosure Guidance and Transparency Rule 5.1.2R, of interests in 3% or more of the voting rights attaching to the Company's issued share capital, as set out in the table below:

	Number of Ordinary Shares/Voting Rights	Percentage of Issued Share Capital	Nature of Holding
The London & Amsterdam Trust Company Limited	108,513,884	15.51%	Direct/Indirect
The Capital Group Companies, Inc.	90,697,454	12.99%	Indirect
Baillie Gifford & Co Limited	35,407,069	5.01%	Direct/Indirect



No changes have been disclosed in accordance with Disclosure Guidance and Transparency Rule 5.1.2R in the period between 1 December 2019 and 28 January 2020 (being not more than one month prior to the date of the Notice of Meeting), except as set out in the table below:

	Number of Ordinary Shares/Voting Rights	Percentage of Issued Share Capital	Nature of Holding
The Capital Group Companies, Inc.	84,679,826	11.94%	Indirect

These figures represent the number of shares and percentage held as at the date of notification to the Company.

American Depository Receipt Program

The Company has a sponsored level 1 American Depository Receipt (“ADR”) program with The Bank of New York Mellon as depository bank. Each ADR represents two ordinary shares of the Company. The ADRs trade on the over-the-counter (OTC) market in the United States. The CUSIP number for the ADRs is 674488101, the ISIN is US6744881011 and the symbol is OCDDY. An ADR is a security that has been created to permit US investors to hold shares in non-US companies and, in a level 1 programme, to trade them on the OTC market in the United States. In contrast to underlying ordinary shares, ADRs permit US investors to trade securities denominated in US dollars in the US OTC market with US securities dealers. Were the Company to pay a dividend on its ordinary shares, ADR holders would receive dividend payments in respect of their ADRs in US dollars.

Senior Secured Notes Due 2024 listed on the Irish Stock Exchange

The Company has Senior Secured Notes due 2024 (the “Notes”) listed on the Irish Stock Exchange and trade on the Global Exchange Market which is the exchange regulated market of the Irish Stock Exchange. The ISIN of the Notes is XS163400189. Interest on the notes is payable semi-annually in arrear. The Notes will mature on 15 June 2024.

The Company may redeem the Notes in whole or in part at any time on or after 15 June 2020, in each case, at the redemption prices set out as part of the offering. Prior to 15 June 2020, the Company will be entitled to redeem, at its option, all or a portion of the Notes at a redemption price equal to 100% of the principal amount of the Notes, plus accrued and unpaid interest and additional amounts, if any, to the redemption date, plus a “make-whole” premium. Prior to 15 June 2020, the Company may, at its option, and on one or more occasions, also redeem up to 40% of the original aggregate principal amount of the Notes with the net proceeds from certain equity offerings. Prior to 15 June 2020, the Company may redeem during each 12-month period commencing on the issue date up to 10% of the aggregate principal amount of the Notes originally issued (including the aggregate principal amount of any additional Notes) at a redemption price equal to 103% of the principal amount thereof, plus accrued and unpaid interest to the applicable redemption date. Additionally, the Company may redeem the Notes in whole, but not in part, at a price equal to their principal amount plus accrued and unpaid interest and additional amounts, if any, upon the occurrence of certain changes in applicable tax law.

On 17 June 2019 the Company redeemed £25,000,000 of the aggregate principal amount of the Notes at a redemption price equal to 103% of the principal amount of the Notes redeemed, plus accrued and unpaid interest.

Convertible Bonds Due 2025 due to be listed on the unregulated open market of the Frankfurt Stock Exchange (Freiverkehr)

The Company issued £600 million of guaranteed senior unsecured convertible bonds due 2025 (the “Bonds”) on 9 December 2019. The net proceeds of the Bonds will be used by the Company to fund capital expenditure in relation to Ocado Solutions’ commitments and general corporate purposes. The Bonds are currently guaranteed by certain members of the Ocado group.

The Bonds were issued at par and carry a coupon of 0.875% per annum payable semi-annually in arrear in equal instalments on 9 June and 9 December, with the first payment on 9 June 2020. The Bonds will be convertible into ordinary shares of the Company (the “Ordinary Shares”). The initial conversion price shall be £17.9308, representing a premium of 45.0% above the reference price of £12.3661, being the volume weighted average price (VWAP) of an Ordinary Share on the London Stock Exchange between the opening and pricing of the offering on 2 December 2019. The conversion price will be subject to adjustment in certain circumstances in line with market practice. The conversion period commenced on 19 January 2020 and shall end on the tenth calendar day prior to the maturity date or, if earlier, ending on the tenth calendar day prior to any earlier date fixed for redemption of the Bonds. Unless previously redeemed, or purchased and cancelled, the Bonds will be convertible at the option of the Bondholders on any day during the conversion period. The Company has the option to redeem all, but not some only, of the Bonds on or after 30 December 2023, at par plus accrued but unpaid interest, if the parity value (as described in the Terms and Conditions) on each of at least 20 dealing days in a period of 30 consecutive dealing days shall have exceeded 130% of the principal amount. The Company also has the option to redeem all outstanding Bonds, at par plus any accrued but unpaid interest, at any time if 85% or more of the principal amount of the Bonds shall have been previously converted or repurchased and cancelled.

Settlement and delivery of the Bonds took place on 9 December 2019. If not previously converted, redeemed or purchased and cancelled, the Bonds will be redeemed at par on 9 December 2025. Application is being made for the Bonds to be admitted to trading on the unregulated open market (Freiverkehr) of the Frankfurt Stock Exchange and shall be done by no later than the first interest payment date (9 June 2020).

Significant Related Party Agreements

There were no contracts of significance during the period between the Company or any Group company and: (i) a Director of the Company; (ii) a close member of a Director’s family; or (iii) a controlling shareholder of the Company.



Directors' Report

Continued

Change of Control

The Company does not have any agreements with any Director or employee that would provide compensation for loss of office or employment resulting from a takeover bid except that it should be noted that: (i) provisions of the Company's share schemes may cause options and awards granted to employees under such schemes to vest on a takeover; and (ii) certain members of senior management (not including the Directors) who were employed prior to 2010 are entitled to a payment contingent on a change of control of the Company or merger of the Company (irrespective of loss of employment) as set out in his or her respective employment contract. For further information on the change of control provisions in the Company's share schemes refer to the Directors' Remuneration Report on page 126 of the 2018 annual report.

Significant Agreements

There are a number of key agreements to which the Group is a party that contain certain rights triggered on the change of control of the Company. Details of the change of control provisions of these agreements are summarised below.

Solutions Agreements: The Group has a number of agreements to provide retailers with access to the OSP (comprising the Ocado Group's proprietary MHE and end-to-end software platform). The key Solutions agreements are those with Aeon, Bon Preu, Coles, Groupe Casino, ICA, Kroger, Ocado Retail and Sobeys.

Under those agreements (save for those with Ocado Retail and Kroger), the retailer is entitled to terminate for convenience at any time following the commencement date of the relevant services. On termination in these circumstances the client would be obliged to pay Ocado termination fees calculated relative to the length of time for which the service has been live. However, such termination fees are not payable should the client terminate within a certain period following the Company coming under the control of certain of the retailer's competitors (or certain controllers with whom the client has a strategic conflict) or if there is a marked deterioration in service levels following the Company coming under the control of any person.

Morrisons Agreements: The Group has a number of commercial arrangements with Morrisons. If certain competitors of Morrisons acquire more than 50% of the voting rights in the Company's shares or take control of the composition of the Board, or acquire all or substantially all of the Group's business and undertakings, then Morrisons would be entitled to give notice to terminate the agreements by giving not less than four (but not more than four and a half) years' notice. Following Morrisons giving such a notice, Morrisons would be entitled to procure equivalent services from third parties, the Company ceasing to be Morrisons' exclusive supplier of online grocery fulfilment services. Similarly, all restrictions within those agreements on the UK retail grocers to whom the Company is entitled to provide certain services would cease to apply. At the end of the four to four and a half years' notice period, the Company would be required to purchase Morrisons' shares in MHE JVCo Limited (the owner of the mechanical handling equipment in Dordon CFC).

Amended and Restated Credit Facility Agreement: The Group has a secured £100 million credit facility with Barclays Bank PLC, HSBC Bank plc, The Royal Bank of Scotland plc, Cooperative Rabobank UA and Goldman Sachs Bank USA for general corporate and working capital purposes. If there is a change of control of the Company, and agreeable terms cannot be negotiated between the parties within 30

days from the date of the change of control, any lender may cancel their commitment under the facility and all outstanding utilisations for that lender, together with accrued interest, shall be immediately payable.

Senior Secured Notes due 2024: Following a change of control of the Company, holders of the Notes may require it to repurchase all or part of their holding at a purchase price in cash equal to 101% of the aggregate principal amount of their holding, plus accrued and unpaid interest.

Convertible Bonds Due 2025: Following a change of control of the Company, the holder of each Bond will have the right to require the Company to redeem that Bond at par, together with accrued and unpaid interest or the bondholders may exercise their conversion right using the formula as described in the Terms and Conditions.

Shareholders' Agreement relating to Ocado Retail: If there is a change of control of Ocado Holdings and / or the Company where the person having control following the change of control is a competitor of M&S, this would amount to an event of default and M&S could elect to purchase all shares held in Ocado Retail at a price prescribed in the agreement.

Solutions and Third Party Logistics Agreement with Ocado

Retail: If there is a competitor change of control of Ocado Operating, Ocado Retail may terminate the third party logistics agreement by giving six months' written notice within three months of the competitor change of control becoming effective. In addition, if there is a change of control (whether or not a competitor change of control) and there is a marked deterioration in the service levels thereafter, Ocado Retail may terminate the third party logistics agreement. If there is a change of control (whether or not a competitor change of control) and there is a marked deterioration in the service levels thereafter, Ocado Retail may terminate the Solutions agreement.

Research and Development Activities

The Group has dedicated in-house software, logistics and engineering design and development teams with primary focus on IT and improvements to the customer interfaces, the CFCs and the automation equipment used in them. Costs relating to the development of computer software are capitalised if it is probable that the future economic benefits that are attributable to the asset will accrue to the entity and the costs can be measured reliably. The Company is carrying out a number of IT and engineering design and build projects with the intention of developing new and improved automation equipment and processes for its warehouses.

Greenhouse Gas Emissions ("GHG") Methodology

Greenhouse Gas Emissions Methodology: To calculate our greenhouse gas emissions, we use an operational control approach, in accordance with selected aspects of the GHG protocol by the World Business Council for Sustainable Development and World Resources Institute's (WBCSD/WRI). The following sources of information have been considered, government conversion factors published by BEIS (2019), IPCC fourth assessment report: climate change 2007, IPCC fifth assessment report: climate change 2013, guidelines and statistics published by IEA (2019) and revised IPCC guidelines for national GHG inventories published by the intergovernmental panel on climate change (IPCC) 2007.

→ Further information is contained in the Strategic Report on page 56

Future Developments of the Business

The Group's likely future developments including its strategy are described in the Strategic Report on pages 12 to 65.



Employees with Disabilities

During the period, the Group appointed its first Diversity and Inclusion manager, to focus inter alia on disabled employees. Applications for employment by people with disability are given full and fair consideration bearing in mind the respective aptitudes and abilities of the applicant concerned and our ability to make reasonable adjustments to the role and the work environment. In the event of existing employees becoming disabled, all reasonable effort is made to ensure that appropriate training is given and their employment within the Group continues. Training, career development and promotion of a disabled person is, as far as possible, identical to that of an able bodied person.

Profit/Loss and Dividends

The Group's results for the period are set out in the Consolidated Income Statement on pages 151 and 152. The Group's loss before tax for the period amounted to £214.5 million (2018: £(44.4) million). The Directors do not propose to pay a dividend for the period (2018: £nil).

Branches

There are no branches of the Company.

Post Balance Sheet Events

There have been no material events after the Balance Sheet date of 1 December 2019 to the date of this Annual Report except for the below.

The Company issued GBP £600 million of guaranteed senior unsecured convertible bonds due 2025 (the "Bonds") on 9 December 2019 of whereby settlement and delivery took place. If not previously converted, redeemed or purchased and cancelled, the Bonds will be redeemed at par on 9 December 2025. Application is being made for the Bonds to be admitted to trading on the unregulated open market (Freiverkehr) of the Frankfurt Stock Exchange and shall be done by no later than the first interest payment date (9 June 2020).

Political Donations

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

Independent Auditor and Tenure

There was an auditor tenure completed by the Audit Committee in 2017 which resulted in new external auditors, Deloitte LLP, being appointed at the 2017 annual general meeting. Deloitte have indicated their willingness to continue their role as the Company's auditor. There are no current plans for another auditor tender. The senior statutory auditor has been Mark Lee-Amies FCA since 2017.

Resolutions concerning the reappointment of Deloitte as auditor of the Company and to authorise the Directors to determine their remuneration will be proposed at the AGM and are set out in the Notice of Meeting.

Disclosure of Information to Auditor

In accordance with Section 418 of the Companies Act 2006, each Director who held office at the date of the approval of this Directors' Report (whose names and functions are listed in the Board of Directors section on page 70 confirms that, so far as they are aware, there is no relevant audit information of which the Group's auditor is unaware, and that each Director has taken all of the steps that they ought to have taken as a Director in order to make themselves aware of any relevant

audit information and to establish that the Group's auditor is aware of that information.

Statement of Directors' Responsibilities

The Directors are responsible for preparing this Annual Report, the Directors' Remuneration 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 prepared the Group and parent Company financial statements in accordance with International Financial Reporting Standards (the "IFRSs") as adopted by the European Union. 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 the Group and of the result of the Company and the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union 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 the Group and to enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the Corporate Website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

As is required under the Code, the Directors consider that this Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Each of the Directors who held office at the date of the approval of this Annual Report (whose names and functions are listed on page 70 confirms, to the best of his or her knowledge, that:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group; and
- the "Management Report" (as defined in the Directors' Report on page 132) includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.



Directors' Report

Continued

Non-Financial Information Statement

The following table sets out where stakeholders can find relevant Non-Financial information within this Annual Report, further to the Financial Reporting Directive requirements contained in sections 414CA and 414CB of the Companies Act 2006. Where possible, it also states where additional information can be found that support these requirements.

Reporting requirement	Relevant Ocado policies and procedures	Where to read more in this report	Page
Business model	N/A	Our Business Model	24–26
Principal risks and impact of business activity	Ocado Risk Management Process	How We Manage our Risks	48–52
Non-financial KPIs	N/A	Our Strategic Objectives: Driving Growth Our Strategic Objectives: Maximising Efficiency Key Performance Indicators	32–39
Employee Engagement	The Ocado Citizenship Code The Ocado Way Whistleblowing policy Ocado Council Board Diversity policy Employee engagement platform – Fuse	Our Business Model Our People Audit Committee Report Nomination Committee Report Directors' Remuneration Report Directors' Report	24–26 60–65 92–97 88–90 98–131 132–138
Human rights	The Ocado Citizenship Code Human Rights policy	Our People	60–65
Social matters	The Ocado Way	Corporate Responsibility Our People	54–57 60–65
Anti-bribery and corruption	Anti-Bribery and Money Laundering policy	Our People	60–65
Environmental matters	The Ocado Way	Corporate Responsibility	54–57

The Directors' Report is approved by the Board and signed on its behalf by

Neill Abrams

Group General Counsel and Company Secretary
Ocado Group plc
11 February 2020

Registered number: 07098618

Registered office address: Buildings One & Two Trident Place,
Mosquito Way, Hatfield, Hertfordshire, United Kingdom,
AL10 9UL

Country of incorporation: England and Wales

Type: Public Limited Company





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Independent Auditor's Report

to the members of Ocado Group plc

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Ocado Group plc (the 'parent company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent company's affairs as at 1 December 2019 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated and parent company cash flow statements; and
- the related notes 1 to 5.6 to the consolidated financial statements and notes 1 to 5.2 to the parent company financial statements.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 Group and the parent 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 as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Detailed of fees for non-audit services are disclosed in note 2.5. We confirm that we did not provide any non-audit services to the Group or the parent company that are prohibited by the FRC's Ethical Standard.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: <ul style="list-style-type: none">Control of Ocado RetailRecognition of retail revenueAccounting for Solutions contractsImpairment of capitalised project costs Within this report, any new key audit matters are identified with ⓘ and any key audit matters which are the same as the prior year identified with ⓘ.
Materiality	The materiality that we used for the Group financial statements was £8.5 million which was determined on the basis of revenue as the primary benchmark. We also considered net assets as a supporting benchmark.
Scoping	The scope of the Group audit includes all significant trading companies in the UK, whose results taken together account for over 95% of the Group's revenue and net assets. We performed analytical procedures over the remaining entities, which includes overseas development operations and Solutions entities, and the Group's captive insurance company in Malta.
Significant changes in our approach	In the current year we have included control of Ocado Retail and recognition of retail revenue as key audit matters. See further detail on page 144. There have been no other significant changes to our audit approach for the period ended 1 December 2019.



Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the directors' statement in note 1.2 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the Group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 48 to 52 that describe the principal risks, procedures to identify emerging risks and an explanation of how these are being managed or mitigated;
- the directors' confirmation on page 49 that they have carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on page 53 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

Going concern is the basis of preparation of the financial statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the financial statements.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Viability means the ability of the company to continue over the time horizon considered appropriate by the directors.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Independent Auditor's Report

to the members of Ocado Group plc

Control of Ocado Retail

Key audit matter description 	<p>As explained on page 14, a joint venture arrangement was established on 5 August 2019 when 50% of Ocado Retail Limited ("Ocado Retail" or the "Retail business") was sold to M&S Group plc ("M&S"). Management determined that under IFRS 10 <i>Consolidated Financial Statements</i> the Group retained control of the entity and hence all of Ocado Retail's results should be consolidated.</p> <p>The arrangement specifies that Ocado and M&S each holds 50% of the share capital of Ocado Retail. However, the substance of the arrangement gives control to whichever party holds determinative rights, after agreed dispute resolution procedures, in relation to the approval of 1) Ocado Retail's business plan and budget and 2) the appointment and removal of Ocado Retail's chief executive officer who is responsible for directing the relevant activities of the business.</p> <p>This is an important judgement because if the Group does not control the entity it would not be able to recognise the performance of the Retail business on a line by line basis from the point of the transaction. Were the Group deemed not to control the Retail business the presentation of the Group's performance for the period ended 1 December 2019, and balance sheet position as at that date, would be materially different.</p> <p>Refer to page 158 where this is disclosed as a critical accounting judgement and the audit committee report on page 92.</p>
How the scope of our audit responded to the key audit matter 	<p>Our audit procedures included:</p> <ul style="list-style-type: none">• reviewing and assessing management's accounting papers and evaluation of the arrangement;• challenging management's conclusions by reviewing the share purchase agreement for the arrangement and comparing this to the requirements of IFRS 10; and• considering the weight of both supportive and contradictory evidence in relation to whether or not the Group, as opposed to M&S, holds determinative rights. We considered in particular the appointment of a former M&S director as the chief executive officer of Ocado Retail, which was one potential aspect of contradictory evidence. We inspected written minutes and agreements, conducted independent enquiry with senior management at both the Group and the Retail business, and obtained persuasive evidence on the process that was followed for the chief executive officer's appointment.
Key observations 	<p>We are satisfied that management's conclusion on control is appropriate under IFRS 10 <i>Consolidated Financial Statements</i>.</p>
Recognition of retail revenue 	
Key audit matter description 	<p>The Group recognised retail revenue of £1.6 billion for the period ended 1 December 2019 (2018: £1.5 billion).</p> <p>Retail revenue is a key metric when evaluating the performance of the business, and has received increased scrutiny externally and internally. As a result, this year we identified a potential risk of bias or fraud through management manipulation. In addition, while there have been no significant changes to the underlying systems and manual and automated controls compared to prior year, the effective operation and interfacing of these is critical to the appropriate recognition of retail revenue.</p> <p>For these reasons, we have included recognition of retail revenue as a key audit matter.</p> <p>The accounting policy for retail revenue recognition is on page 162.</p>
How the scope of our audit responded to the key audit matter 	<p>In order to address the risk of inappropriate recognition of retail revenue our procedures included:</p> <ul style="list-style-type: none">• obtaining an understanding of management's controls over the appropriate recognition of retail revenue, in particular the reconciliation between sales order reports, the revenue recorded in the general ledger and cash;• using our analytics specialists, we used raw order data to independently model sales order reports;• an independent re-performance of the reconciliation from sales reports to the general ledger and to reports from third party payment service providers and to cash;• tests on the reconciling items to validate that they were not the result of management manipulation;• tracing an independent sample of orders from origination to raw order data; and• challenging management on the business rationale for manual adjustments to retail revenue that exhibit potential fraud indicators.
Key observations 	<p>We are satisfied that retail revenue is not materially misstated.</p>



Accounting for Solutions contracts

Key audit matter description



The Ocado Solutions business has agreed contracts with nine (2018: six) customers.

At period end, the Group had contract liabilities £191.8 million (2018: £115.2 million). Of this amount, £5.1 million (2018: £6.6 million) is expected to be recognised within the next year with the remainder over future periods.

The accounting for these arrangements is complex and requires significant judgement. This is due to the need to identify relevant performance obligations and determine the appropriate timing and profile of revenue recognition under IFRS 15 Revenue from Contracts with Customers ("IFRS 15").

Given the considerable external focus on the development of the Solutions business, we considered there to be a potential risk for fraud in relation to the inappropriate timing and profile of revenue recognition.

Refer to pages 92 to 97 (Audit Committee report) and the accounting policies and critical accounting judgements on page 158.

How the scope of our audit responded to the key audit matter



In order to address the risk of incorrect identification of performance obligations, our audit procedures included:

- obtaining an understanding of management's controls over the accounting for Solutions contracts;
- independently reviewing and assessing each contract to understand the substance of the arrangements, the various activities inherent in each new contract and to consider potential accounting matters such as the existence of additional performance obligations and material rights; and
- challenging management's interpretation of IFRS 15 and relevant guidance.

Our procedures to address the timing and profile of revenue recognition, including the potential for fraud or bias, included:

- ascertaining the appropriate amount of revenue that should be allocated to each performance obligation by assessing the fees that the Group will receive over the course of each contract;
- assessing the time period and profile over which revenue should be recognised as well as consideration of any material rights identified and potential contradictory evidence;
- where relationships have "gone live", obtaining evidence to support transactions such as invoices for services, cash receipts, or proof of delivery for software solutions; and
- independently recalculating the recognition of revenue and comparing to management's workings.

Key observations



We are satisfied that revenue from Ocado Solutions contracts have been recognised appropriately in line with IFRS 15.



Independent Auditor's Report

to the members of Ocado Group plc

Impairment of capitalised project costs

Key audit matter description 	<p>The Group continues to invest significantly in developing the software and hardware it uses to operate the Retail business and to provide the end-to-end Ocado Solutions Platform ("OSP") to Solutions customers. The net book value of the Group's intangibles and property, plant and equipment continues to grow (excluding the impact of the £99.0m impairment in relation to the Andover CFC – see note 2.7). Amounts that have been capitalised in the year includes internal development costs of £93.8 million (2018: £68.7 million) and fixtures, fittings, plant and machinery of £140.4 million (2018: £119.8 million). Expenditure is held in work-in-progress and is not depreciated or amortised if it relates to projects that are not yet live and ready for use. This includes expenditure for overseas Solutions contracts as well as bot and automation development for future use. At period end, capital work-in-progress amounts to £141.2 million (2018: £59.7 million). Given the nature of this expenditure, we identified the possibility of unrecorded impairment as a key audit matter. The significant sums being invested each year, the fast pace of development and the potential for new technology to supersede previously capitalised assets mean there is significant judgement in determining whether an impairment charge or acceleration of depreciation and amortisation may be required. There is also judgement in assessing whether project assets in relation to the Solutions business will generate future economic benefits. As a result, there is a potential risk that management exhibits bias in their judgements over the identification and timeliness of recognition of impairment.</p> <p>Refer to page 94 (Audit Committee statement), notes 3.1 and 3.2 and the disclosures in respect of Critical Accounting Judgements and Key Sources of Estimation Uncertainty in note 1.4.</p>
How the scope of our audit responded to the key audit matter 	<p>To address the risk that the value of capitalised project costs are overstated due to unrecorded impairments, our audit procedures included:</p> <ul style="list-style-type: none">• obtaining an understanding of management's impairment review control;• selecting a risk-focused sample of projects and:<ul style="list-style-type: none">• conducting detailed enquiries with project managers, outside of the finance function, to enhance our understanding of the plans, business rationale and economic benefits of those projects, and obtaining evidence of budget approvals and extensions;• making specific enquiries to identify indicators of impairment, such as levels of expenditure against budget, milestones achieved against timetable, and whether expenditure replaces and supersedes previously capitalised assets; and• benchmarking the useful economic lives of the Group's asset categories against comparable companies and against potential contradictory evidence, such as any instances of accelerated depreciation, identified as part of our testing; and• challenging management and applying professional scepticism on the significant judgements adopted in their impairment review by searching for contradictory evidence, for example indicators that the project may not be feasible or that assets including software have or will be scrapped earlier than intended. <p>In addition to the above to help consider and address the fraud risk we performed a series of analytical tests on the costs capitalised to identify items that appeared unusual, for example projects with limited or negative costs capitalised, and obtained explanations and supporting evidence.</p>
Key observations 	We have not identified any material unrecorded impairments of capitalised project costs at period end.



Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£8.5 million (2018: £6.6 million)	£6.8 million (2018: £6.5 million)
Basis for determining materiality	We determined materiality based on revenue as the primary benchmark (0.5% of revenue; 2018: 0.4%). In 2019, we also considered the supporting benchmark of net assets (2019: 0.8%; 2018: 1.2%)	Parent company materiality is determined on the basis of net assets and capped at 80% of Group materiality. It equates to 0.6% of net assets (2018: 0.6%).
Rationale for the benchmark applied	We determined materiality principally based on revenue given the importance of this as a measure of overall performance of the Group. However, we also considered net assets as a supporting benchmark as the Group has continued to invest significant sums in technology and development of CFCs, much of which is work-in-progress.	The parent company's principal activities include holding investments in other Group companies and incurring costs and liabilities on behalf of the Group, including borrowings. As a result, we considered net assets to be the most relevant benchmark on which to base materiality.

On the basis of our risk assessment, our assessment of the Group's control environment including our plan to rely on the effective operation of certain systems and controls, and management's willingness to correct errors that may be identified, we set performance materiality for the Group at £5.9 million (2018: £4.6 million) which represents 70% (2018: 70%) of Group materiality. We use performance materiality to determine the extent of our testing; it is lower than Group materiality to reflect our assessment of the risk of errors remaining undetected by our sample testing or uncorrected in the financial statements.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.4 million (2018: £0.3 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

The scope of our audit was broadly consistent with the prior year. In line with 2018, we planned to test and rely on the key manual and automated controls over the following business processes: capitalisation of intangible assets and property, plant and equipment; inventory; supplier income; operating expenses; and payroll. We also involved IT specialists to test the general IT controls over key financial reporting systems, such as Oracle and the Warehouse Management Systems.

As noted on page 92 of the Report from the Chairman of the Audit Committee, improvements are required to the underlying control environment. In particular, given the Group's rapid growth, significant organisational changes and increased complexity, finance function resources have been stretched and controls, including controls over IT (such as access rights) whilst operating, have not always operated on a timely basis and with the rigour and oversight expected. Furthermore, the operational separation of the Retail business, including data and systems, has been challenging. This increased the audit effort required to complete our work.

As a consequence, our final approach only placed reliance on key controls in the inventory and supplier income processes. In addition, we performed additional procedures to respond to the potential risks, including the risk of fraud which are outlined in on page 149.

We visited three of the four operating Customer Fulfilment Centres ("CFCs") and both General Merchandise Distribution Centres ("GMDCs").

The Audit Partner met members of the Audit Committee, the Chairman, and Executive Directors throughout the year. In addition, as part of understanding the business and performing our audit procedures we met with senior management across the Group within and outside the finance functions. Taken together, this informed the Group audit scope.

The scope of the Group audit includes all significant trading companies in the UK, including Ocado Retail Limited (a joint venture with M&S Group plc but which is controlled and consolidated by the Group) and the joint venture with Morrisons. The results for these entities accounts for over 95% (2018: 95%) of the Group's revenue and net assets.

For the entities not subject to detailed audit work, which includes overseas development operations and Solutions entities, the Group's captive insurance company in Malta, and the Fabled business that was disposed of during the year, we tested the consolidation process and conducted analytical procedures to confirm our conclusion that there were no material misstatements in the aggregated financial information. All entities are currently managed from one central location in the UK and all audit work relevant to the Group audit is conducted by the Group audit team based in London.



Independent Auditor's Report

to the members of Ocado Group plc

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.

We have nothing to report in respect of these matters.

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.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- Fair, balanced and understandable – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- Directors' statement of compliance with the UK Corporate Governance Code – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

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 Group's and the parent 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 Group or the parent 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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

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.



Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- considering the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets
- enquiring of management, internal audit and the audit committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team and involving relevant internal IT and tax specialists, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas: recognition of retail revenue, accounting for Solutions contracts and impairment of capitalised project costs; and
- obtaining an understanding of the legal and regulatory framework Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules and relevant tax legislation. We also considered the Groceries Supply Code of Practice ("GSCOP") as having a fundamental effect on the operations of the Group.

Audit response to risks identified

As a result of performing the above, we identified recognition of retail revenue, accounting for Solutions contracts and impairment of capitalised project costs as key audit matters with a potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims, and any matters relevant to compliance with GSCOP;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance and reviewing internal audit reports;
- as noted above, we also considered the risk of fraud arising from deficiencies in the control environment and involved our fraud specialists in designing procedures to respond to this risk. These procedures included obtaining evidence to support a sample of payments made to suppliers used only once and considering payments other than salary related into employee bank accounts; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.



Independent Auditor's Report

to the members of Ocado Group plc

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with 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 Group and the parent company and their 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

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

We have nothing to report in respect of these matters.

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

Directors' remuneration

We have nothing to report in respect of these matters.

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

Other matters

Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Board of Directors on 3 May 2017 to audit the financial statements for the period ended 3 December 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 3 years, covering the periods ending 3 December 2017 to 1 December 2019.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

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.

Mark Lee-Amies FCA (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, UK

11 February 2020



Consolidated Income Statement

for the 52 weeks ended 1 December 2019

	Notes	Results Before Exceptional Items [®] £m	Exceptional Items [®] (Note 2.7) £m	Total £m	52 Weeks Ended 2 December 2018 ⁽¹⁾ £m
Revenue	2.2, 2.3	1,756.6	–	1,756.6	1,598.8
Cost of sales		(1,159.3)	(5.5)	(1,164.8)	(1,051.3)
Gross profit		597.3	(5.5)	591.8	547.5
Other income	2.4	83.9	23.8	107.7	71.9
Distribution costs		(564.8)	(7.0)	(571.8)	(485.4)
Administrative expenses		(209.9)	(104.3)	(314.2)	(167.1)
Operating loss before results from joint ventures and associate		(93.5)	(93.0)	(186.5)	(33.1)
Share of results from joint ventures and associate	3.6, 3.7	0.7	–	0.7	1.2
Operating loss	2.5	(92.8)	(93.0)	(185.8)	(31.9)
Loss on disposal of subsidiary	2.7	–	(1.1)	(1.1)	–
Finance income	4.6	3.3	–	3.3	2.2
Finance costs	4.6	(30.9)	–	(30.9)	(14.7)
Loss before tax		(120.4)	(94.1)	(214.5)	(44.4)
Income tax	2.8	2.7	–	2.7	(0.5)
Loss for the period		(117.7)	(94.1)	(211.8)	(44.9)
Attributable to:					
Owners of Ocado Group plc				(213.1)	(44.9)
Non-controlling interests				1.3	–
				(211.8)	(44.9)
Loss per share	Notes		pence		pence
Basic and diluted loss per share	2.9		(29.37)		(6.85)

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

	Notes	52 Weeks Ended 1 December 2019 £m	52 Weeks Ended 2 December 2018 ⁽²⁾ £m
Operating loss		(185.8)	(31.9)
Adjustments for:			
Depreciation of property, plant and equipment	3.3	46.0	63.3
Depreciation of right-of-use assets	3.4	50.4	–
Amortisation expense	3.2	37.3	27.1
Impairment of property, plant and equipment	3.3	0.6	0.5
Impairment of intangible assets	3.2	1.8	0.4
Exceptional items [®]	2.7	93.0	0.1
EBITDA[®]		43.3	59.5

(1) Exceptional items of £0.1 million in 2018 have been reclassified to administrative expenses in the Consolidated Income Statement for the purposes of presenting the comparative information.

(2) EBITDA for the prior period has not been restated for the effects of IFRS 16 in line with the modified retrospective approach (see note 1.5).

The notes on pages 156 to 207 form part of these financial statements.

[®] See Alternative Performance Measures on pages 227 and 228.



Consolidated Statement of Comprehensive Income

for the 52 weeks ended 1 December 2019

	Notes	52 Weeks Ended 1 December 2019 £m	52 Weeks Ended 2 December 2018 £m
Loss for the period		(211.8)	(44.9)
Other comprehensive income:			
Items that may be reclassified to profit or loss in subsequent periods:			
Cash flow hedges			
– Gains arising on hedging contracts	4.10	–	1.0
– Losses arising on hedging contracts	4.10	(1.7)	–
Foreign exchange loss on translation of foreign subsidiaries	4.10	(0.6)	(0.3)
Items that will not be reclassified to profit or loss in subsequent years:			
Gain on equity investments designated as at fair value through other comprehensive income	4.10	2.8	–
Reclassification of equity of Jones Food Company	4.10	0.1	–
Other comprehensive income for the period, net of income tax		0.6	0.7
Total comprehensive expense for the period		(211.2)	(44.2)
Attributable to:			
Owners of Ocado Group plc		(212.5)	(44.2)
Non-controlling interests		1.3	–
		(211.2)	(44.2)

The notes on pages 156 to 207 form part of these financial statements.



Consolidated Balance Sheet

as at 1 December 2019

	Notes	1 December 2019 £m	2 December 2018 £m
Non-current assets			
Goodwill	3.1	4.7	–
Other intangible assets	3.2	185.8	143.2
Property, plant and equipment	3.3	468.6	556.7
Right-of-use assets	3.4	368.8	–
Deferred tax assets	2.8	27.2	16.6
Contract assets	2.3	0.3	–
Costs to obtain contracts	2.3	0.8	0.8
Financial assets	3.5	177.3	4.1
Investment in joint ventures	3.6	45.8	52.2
Investment in associate	3.7	4.7	–
		1,284.0	773.6
Current assets			
Asset held for sale	3.8	4.2	4.2
Inventories	3.9	52.3	56.5
Contract assets	2.3	0.1	–
Trade and other receivables	3.10	150.0	104.7
Insurance reimbursement asset	3.13	49.2	–
Derivative financial instruments	4.7	–	0.1
Financial assets	3.5	2.8	–
Cash and cash equivalents	3.11	750.6	410.8
		1,009.2	576.3
Total assets		2,293.2	1,349.9
Current liabilities			
Trade and other payables	3.12	(349.6)	(291.0)
Contract liabilities	2.3	(5.1)	(6.6)
Lease liabilities	4.3	(50.1)	(22.9)
Derivative financial instruments	4.7	(0.5)	(0.5)
Provisions	3.13	(54.0)	(8.3)
		(459.3)	(329.3)
Net current assets		549.9	247.0
Non-current liabilities			
Contract liabilities	2.3	(186.7)	(108.6)
Borrowings	4.2	(219.7)	(244.3)
Lease liabilities	4.3	(338.4)	(93.4)
Provisions	3.13	(14.5)	(8.8)
Deferred tax liabilities	2.8	(16.3)	(8.9)
		(775.6)	(464.0)
Net assets		1,058.3	556.6
Equity			
Share capital	4.10	14.2	14.0
Share premium	4.10	705.3	589.9
Treasury shares reserve	4.10	(113.6)	(9.2)
Reverse acquisition reserve	4.10	(116.2)	(116.2)
Other reserves	4.10	4.0	1.4
Retained earnings		555.2	76.7
Equity attributable to owners of Ocado Group plc		1,048.9	556.6
Non-controlling interests	5.2	9.4	–
Total equity		1,058.3	556.6

The notes on pages 156 to 207 form part of these financial statements.

The consolidated financial statements on pages 156 to 207 were authorised for issue by the Board of Directors and signed on its behalf by:

Tim Steiner

Chief Executive Officer

Duncan Tatton-Brown

Chief Financial Officer

Ocado Group plc
Company Registration Number 07098618 (England and Wales)
11 February 2020



Consolidated Statement of Changes in Equity

for the 52 weeks ended 1 December 2019

Notes	Attributable to Owners of Ocado Group plc								Non-Controlling Interests £m	Total Equity £m
	Share Capital £m	Share Premium £m	Treasury Shares Reserve £m	Reverse Acquisition Reserve £m	Other Reserves £m	Retained Earnings £m	Total £m			
Balance at 3 December 2017⁽¹⁾	12.6	261.3	(48.0)	(116.2)	0.7	137.2	247.6	–	247.6	
Loss for the period	–	–	–	–	–	(44.9)	(44.9)	–	(44.9)	
Other comprehensive income:										
Cash flow hedges										
– Gains arising on hedging contracts	4.10	–	–	–	1.0	–	1.0	–	1.0	
– Losses arising on hedging contracts	4.10	–	–	–	–	–	–	–	–	
Translation of foreign subsidiaries	4.10	–	–	–	(0.3)	–	(0.3)	–	(0.3)	
Total comprehensive income/(expense) for the period ended 2 December 2018	–	–	–	–	0.7	(44.9)	(44.2)	–	(44.2)	
Transactions with owners:										
– Issue of ordinary shares	4.10	1.3	322.1	–	–	–	323.4	–	323.4	
– Allotted in respect of share option schemes	4.10	0.1	6.2	–	–	–	6.3	–	6.3	
– Disposal of treasury shares	4.10	–	–	11.7	–	3.5	15.2	–	15.2	
– Transfer of treasury shares to participants	4.10	–	–	27.8	–	(27.8)	–	–	–	
– Reclassification between reserves	4.10	–	0.3	(0.7)	–	0.4	–	–	–	
– Share-based payments charge	4.11	–	–	–	–	6.1	6.1	–	6.1	
– Disposal of Ocado Information Technology Ltd	–	–	–	–	–	2.2	2.2	–	2.2	
Total transactions with owners	1.4	328.6	38.8	–	–	(15.6)	353.2	–	353.2	
Balance at 2 December 2018⁽¹⁾	14.0	589.9	(9.2)	(116.2)	1.4	76.7	556.6	–	556.6	
IFRS 9: impact of change in accounting policy	–	–	–	–	2.0	–	2.0	–	2.0	
Adjusted balance at 2 December 2018⁽¹⁾	14.0	589.9	(9.2)	(116.2)	3.4	76.7	558.6	–	558.6	
Loss for the period	–	–	–	–	–	(213.1)	(213.1)	1.3	(211.8)	
Other comprehensive income:										
Cash flow hedges										
– Losses arising on hedging contracts	4.10	–	–	–	(1.7)	–	(1.7)	–	(1.7)	
Translation of foreign subsidiaries	4.10	–	–	–	(0.6)	–	(0.6)	–	(0.6)	
Gain on equity investments designated as at fair value through other comprehensive income	4.10	–	–	–	2.8	–	2.8	–	2.8	
Reclassification of equity of Jones Food Company	–	–	–	–	0.1	–	0.1	–	0.1	
Total comprehensive income/(expense) for the period ended 1 December 2019	–	–	–	–	0.6	(213.1)	(212.5)	1.3	(211.2)	
Transactions with owners:										
– Issue of ordinary shares	4.10	0.2	113.0	(111.1)	–	–	2.1	–	2.1	
– Allotted in respect of share option schemes	4.10	–	2.4	–	–	–	2.4	–	2.4	
– Disposal of treasury shares on exercise by participants	4.10	–	–	0.5	–	0.3	0.8	–	0.8	
– Disposal of unallocated treasury shares	4.10	–	–	5.7	–	48.5	54.2	–	54.2	
– Transfer of treasury shares to participants	4.10	–	–	0.8	–	(0.8)	–	–	–	
– Reclassification between reserves	–	–	(0.3)	–	–	0.3	–	–	–	
– Growth Incentive Plan cash settlement on vesting	4.11	–	–	–	–	(80.2)	(80.2)	–	(80.2)	
– Share-based payments charge	4.11	–	–	–	–	12.8	12.8	–	12.8	
– Part-disposal of Ocado Retail	5.2	–	–	–	–	710.7	710.7	6.0	716.7	
– Acquisition of Jones Food Company	–	–	–	–	–	–	–	2.1	2.1	
Total transactions with owners	0.2	115.4	(104.4)	–	–	691.6	702.8	8.1	710.9	
Balance at 1 December 2019	14.2	705.3	(113.6)	(116.2)	4.0	555.2	1,048.9	9.4	1,058.3	

(1) Historic losses of £2.9 million on the utilisation of treasury shares to satisfy vestings of Long-Term Incentive Plan awards have been reclassified from share premium to retained earnings, and reflected in Balance at 3 December 2017 and Balance and Adjusted balance at 2 December 2018.

The notes on pages 156 to 207 form part of these financial statements.



Consolidated Statement of Cash Flows

for the 52 weeks ended 1 December 2019

	Notes	52 weeks ended 1 December 2019 £m	52 weeks ended 2 December 2018 £m
Cash flows from operating activities			
Loss before tax		(214.5)	(44.4)
Adjustments for:			
– Depreciation, amortisation and impairment losses	3.2, 3.3, 3.4	233.0	91.3
– Write-off of fixed assets, intangible assets and inventories		9.5	–
– Movement in provisions		(1.0)	7.0
– Share of result from joint ventures	3.6	(0.9)	(1.2)
– Share of result from associate	3.7	0.2	–
– Net loss on derivative financial instruments	4.9	(1.7)	–
– Revenue from long-term contracts	2.3	(2.9)	–
– Other income from insurance proceeds	2.4	(23.8)	–
– Share-based payments charge	4.11	12.8	6.1
– Net finance costs	4.6	27.6	12.5
– Movement in costs to obtain contracts	2.3	–	(0.8)
– Settlement of cash flow hedges		(0.1)	1.6
Changes in working capital:			
– Movement in inventories		(7.6)	(13.6)
– Movement in trade and other receivables		(29.4)	(36.1)
– Movement in trade and other payables		8.0	55.0
– Movement in contract liabilities	2.3	79.5	65.5
Cash generated from operations		88.7	142.9
Interest paid		(30.6)	(14.5)
Cash settlement of Growth Incentive Plan		(80.2)	–
Insurance proceeds relating to destroyed inventory and business interruption		73.8	–
Net cash flows from operating activities		51.7	128.4
Cash flows from investing activities			
Purchase of property, plant and equipment		(175.5)	(112.8)
Purchase of intangible assets		(84.1)	(57.3)
Proceeds from disposal of Fabled, net of cash sold		(0.5)	–
Dividend received from joint venture	3.6	15.6	–
Purchase of investments in associate and joint venture		(13.6)	–
Purchase of Jones Food Company, net of cash acquired	3.1	(7.6)	–
Purchase of unlisted equity investment		(1.6)	–
Interest received		3.3	2.2
Net cash flows used in investing activities		(264.0)	(167.9)
Cash flows from financing activities			
Proceeds from the issue of ordinary share capital, net of transaction costs		0.8	333.1
Proceeds from allotment of share options		2.4	–
Proceeds from disposal of treasury shares on exercise by participants		0.8	–
Proceeds from Value Creation Plan - jointly-owned equity awards		1.3	–
Proceeds from disposal of unallocated treasury shares, net of transactions costs		54.2	–
Proceeds from part-disposal of Ocado Retail, net of transaction costs		558.3	–
Repayment of borrowings		(25.0)	–
Repayments of lease liabilities		(40.2)	(32.0)
Payment of financing fees		(0.5)	(0.8)
Net cash flows from financing activities		552.1	300.3
Net increase in cash and cash equivalents		339.8	260.8
Cash and cash equivalents at the beginning of the period		410.8	150.0
Cash and cash equivalents at the end of the period	3.11	750.6	410.8

The notes on pages 156 to 207 form part of these financial statements.



Notes to the Consolidated Financial Statements

Section 1 — Basis of Preparation

1.1 General Information

Ocado Group plc (hereafter “the Company”) is a listed company incorporated in the United Kingdom under the Companies Act 2006 (Registration number 07098618). The Company is the parent and the ultimate parent of the Group. The address of its registered office is Buildings One & Two Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9UL. The financial statements comprise the results of the Company and its subsidiaries (hereafter “the Group”) (see note 5.1). The financial period represents the 52 weeks ended 1 December 2019. The prior financial period represents the 52 weeks ended 2 December 2018. The principal activities of the Group are described in the Strategic Report on pages 12 to 65.

1.2 Basis of Preparation

The financial statements have been prepared in accordance with the Listing Rules and the Disclosure Guidance and Transparency Rules of the UK Financial Conduct Authority (where applicable), International Financial Reporting Standards (“IFRS”) and International Financial Reporting Standards Interpretation Committee (“IFRIC”) interpretations as endorsed by the European Union (“IFRS-EU”), and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The accounting policies applied are consistent with those described in the Annual Report and Financial Statements for the 52 weeks ended 2 December 2018 of Ocado Group plc, with the exception of the adoption of IFRS 9 “Financial Instruments” and early adoption of IFRS 16 “Leases”.

The financial statements are presented in pounds sterling, rounded to the nearest hundred thousand unless otherwise stated. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial asset investments and certain financial assets and liabilities, which are held at fair value.

The Directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements of the Group.

New Standards, Amendments and Interpretations Adopted by the Group

In the current period, the Group has adopted IFRS 9 “Financial Instruments” and IFRS 16 “Leases” for the first time.

Due to the transition methods chosen by the Group in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards. Rather, reclassifications and any adjustments arising from the adoption of IFRS 9 and IFRS 16 have been recognised in the opening equity balances at 3 December 2018. Accordingly, the Group is not required to present a third Balance Sheet. See note 1.5 for further information.

The Group has also considered the following new standards, interpretations and amendments to published standards that are effective for the Group for the financial year beginning 3 December 2018 and concluded that they are either not relevant to the Group or that they would not have a significant effect on the Group’s financial statements other than disclosures:

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

New Standards, Amendments and Interpretations Not Yet Adopted by the Group

The following new standards, interpretations and amendments to published standards and interpretations which are relevant to the Group have been issued but are not effective for the financial year beginning 3 December 2018 and have not been adopted early:

	Effective Date
IFRS 9	Financial Instruments (amendments)
IAS 19	Employee Benefits (amendments)
IAS 28	Investments in Associates and Joint Ventures (amendments)
IFRIC 23	Uncertainty over Income Tax Treatments
Annual Improvements to IFRS Standards 2015–2017 Cycle	1 January 2019
	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23
IFRS 3	1 January 2020
IAS 1, IAS 8	Business Combinations (amendments)
Various	Definition of Material (Amendments to IAS 1 and IAS 8)
IFRS 17	Amendments to References to the Conceptual Framework in IFRS Standards
IFRS 10	1 January 2020
IAS 28	Insurance Contracts
	Consolidated Financial Statements (amendments)
	1 January 2021
	Investments in Associates and Joint Ventures (amendments)
	Deferred
	Deferred

These standards, interpretations and amendments to published standards and interpretations are not expected to have a material effect on the Group’s financial statements.



1.3 Basis of Consolidation

The consolidated Group financial statements consist of the financial statements of the Company, all entities controlled by the Company (its subsidiaries) and the Group's share of its interests in joint ventures and associates.

Subsidiaries

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which the Company obtains control and excluded when the Company loses control. Control is achieved when the Company has the ability and right, directly or indirectly, to govern the financial and operating policies of an entity. This ability enables the Company to affect the amount of economic benefit generated from the entity's activities. This exists for all of the Group's subsidiaries listed in note 5.1.

Ocado Polska Sp. z o.o. has a year end of 30 November 2019, as the Poland Accounting Act requires a financial year to be 12 full calendar months from the prior year end date. Ocado Spain S.L.U. and Ocado Bulgaria EOOD have a year end of 31 December 2019, as established in their articles of association. There were no material movements in balances between the reporting date of the Group and the reporting dates of these entities. Jones Food Company has a year end of 31 March but has prepared additional financial information for 1 December 2019 to enable consolidation.

All other subsidiaries have a period end of 1 December 2019.

All intercompany balances and transactions, including recognised gains arising from intra-Group transactions, have been eliminated in full. Unrealised losses are eliminated in the same manner as recognised gains except to the extent that they provide evidence of impairment.

The Group attributes the total comprehensive income/expense of subsidiaries between the owners of the Company and the non-controlling interests, based on their respective ownership interests.

Joint Ventures and Associates

The Group's share of the results of joint ventures and associates is included in the Consolidated Income Statement using the equity method of accounting. Investments in joint ventures and associates are carried on the Consolidated Balance Sheet at cost plus post-acquisition changes in the Group's share of the net assets of the entity, less any impairment in value and dividends received. The carrying values of the investments in joint ventures and associates include goodwill.

If the Group's share of losses in a joint venture or associate equals or exceeds its investment in the joint venture or associate, the Group does not recognise further losses, unless it has incurred obligations to do so or made payments on behalf of the joint venture or associate. Unrealised gains arising from transactions with joint ventures and associates are eliminated to the extent of the Group's interest in the entity.

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 applied consistently to all the periods presented unless otherwise stated.

Foreign Currency Translation

Functional and Presentational Currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The pound sterling is the Company's functional and the Group's presentational currency.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the reporting date. Income and expenses are translated at the average exchange rates for the period or at the date of the transaction. Exchange differences arising are recognised in other comprehensive income and accumulated in a separate component of equity.

Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuations where items are remeasured. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated 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 Consolidated Income Statement within finance income or costs. All other foreign exchange gains and losses are presented in the Consolidated Income Statement within operating profit/loss.

Group Companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentational currency are translated into the presentational currency as follows:

- a. assets and liabilities for each Balance Sheet presented are translated at the closing rate at the date of that Balance Sheet;
- b. income and expenses for each Income Statement are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rates on the dates of the transactions); and
- c. all resulting exchange differences are recognised as a separate component of equity.



Notes to the Consolidated Financial Statements

Continued

1.4 Significant Accounting Policies and Critical Estimates, Judgements and Assumptions

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

Key estimation uncertainties are the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Significant judgements are those that the Group has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Changes in accounting estimates may be necessary if there are changes in the circumstances on which the estimate was based or as a result of new information or more experience. Significant accounting policies, key estimation uncertainties, and judgements are provided below:

Accounting Policies that are Significant due to the Nature of Business:

Area	Policy	Note
Revenue recognition	For Ocado Retail, revenue from the sale of goods is recognised when the customer obtains control of the goods, which is generally on delivery to the customer's home for Ocado deliveries, and upon transfer of goods to the courier for third party deliveries.	2.1
	For Ocado Solutions, revenue from the rendering of services is recognised over the life of the contract from the date the customer first benefits from those services.	

Key Estimation Uncertainties:

Area	Estimate	Note
Fair value measurement	The fair value of contingent consideration receivable is based on an estimate of discounted future cash inflows. At year end the fair value recognised was £169.1m. The primary element of this relates to the agreed deferred payment of up to £187.5m that arises from the sale of Ocado Retail, which is subject to agreed performance targets being achieved. At present we have recognised the full amount (discounted) as, based on current projections, we expect to achieve the agreed performance targets. If these targets were not achieved or were partially achieved, or if there were to be a change in the discount rate applied, there would be a direct impact on the consideration to be received.	4.8

Critical Accounting Judgements:

Area	Judgement	Note
Consolidation of Ocado Retail	Management has concluded that the Group controls Ocado Retail, since it holds 50.0% of the voting rights of the company and an agreement signed by the shareholders grants the Group determinative rights, after agreed dispute-resolution procedures in relation to the approval of Ocado Retail's business plan and budget and the appointment and removal of Ocado Retail's Chief Executive Officer who is responsible for directing the relevant activities of the business.	5.1
Revenue from contracts with customers	Due to the size and complexity of Ocado Solutions' contracts, there are significant judgements to be applied. The identification of performance obligations in the contract is a critical judgement as this is a key driver of the profile over which revenue is recognised under the contract. Under our current judgement, we believe that there is one underlying performance obligation in a Solutions contract and that revenue begins to be recognised when a working solution is in operation for a partner. A further key judgement is the consideration and identification of material rights under the contract as this impacts the time period over which upfront fees are recognised as revenue. Alternative judgements could have resulted in the business recognising revenue from these contracts in an alternative profile over time. The amount of revenue recognised from our Solutions agreements is expected to continue to increase in the future as these agreements go live.	2.1
Provisions, contingent liabilities and contingent assets	A typical Ocado Solutions' contract includes numerous key milestones and failure to reach these can be subject to contractual financial penalties. Management judgement is required to review the progress of these ongoing projects, and assess whether a provision should be made for these potential penalties. Management have determined that no liability is required in the current year from discussions with senior management and key business streams.	3.13, 3.14
Exceptional items	The Group applies judgement in identifying the significant items of income and expenditure that are recognised as exceptional to help provide an indication of the Group's underlying performance. These measures are not meant to replace, or be considered superior to, IFRS measures. Management judgement was applied to exceptionalise a number of one-off transactions during the period; a fire that destroyed the Andover CFC impacting our capacity by 10%; the sale of 50% of the shares of Ocado Retail; the disposal of Fabled; and the high profile litigation with former employees surrounding IP theft. Management deem that disposal of core business streams are not within ordinary course of business, as well as litigation in protecting the IP of the business. The statutory impact of these items is clearly disclosed in the Group Income Statement.	2.7
Share options and other equity instruments	When determining the fair value of equity instruments granted, the Group applies valuation techniques. The Group reviews the particular features of each share-related incentive scheme. Management judgement is exercised on appropriate option pricing model selection to ensure it is relevant for the schemes in question. In the current period, management judgement was exercised around the VCP scheme, and consideration and experience was relied upon in determining key assumptions such as share price volatility. Volatility was a key judgement in respect of the fair valuation of the VCP scheme and this judgement was made based on historical volatility trends alongside implied forward volatility trends. If the volatility applied had been 5 percentage points higher or lower the fair value of the scheme over 5 years would have increased or decreased by approximately £15.0 million.	4.11
Recognition of deferred tax assets	The deferred tax asset recognised at 1 December 2019 is £27.2 million (2018: £16.6 million). In determining the recognition of a deferred tax asset, management judgement is applied in considering the level of taxable profits expected to be received by the business over a 4 year period and whether this is sufficient to support the recognition of an asset. This judgement on profitability considers future business risks and the prudent forecasting of future taxable profits, underpinned by the businesses going concern and viability view.	2.8



1.4 Significant Accounting Policies and Critical Estimates, Judgements and Assumptions Continued

Other estimates, assumptions and judgements are applied by the Group. These include, but are not limited to, the determination of the rates of depreciation and amortisation of tangible and intangible assets respectively, and of lease terms and provisions. These estimates, assumptions and judgements are also evaluated on a continual basis but are not significant.

1.5 Changes in Significant Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of IFRS 9 “Financial Instruments” and IFRS 16 “Leases”.

Initial Adoption of IFRS 9 “Financial Instruments”

IFRS 9 “Financial Instruments” replaces IAS 39 “Financial Instruments: Recognition and Measurement” for financial periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The main changes the new standard introduced were:

- new requirements for the classification and measurement of financial assets and financial liabilities;
- a new model for recognising impairment of financial assets; and
- changes to hedge accounting by aligning hedge accounting more closely to an entity’s risk management objectives.

The Group has chosen not to restate comparative information on adoption of IFRS 9 and, therefore, reclassifications and any adjustments arising from the adoption of IFRS 9 are recognised in the opening equity balances as at 3 December 2018. In accordance with IFRS 9 transition guidance, comparative financial information in the primary financial statements remains compliant with the classification and measurement requirements of IAS 39.

Classification and Measurement

IFRS 9 introduced a principles-based approach to the classification of financial assets. Classification is determined by the business model in which the financial assets are managed and their contractual cash flow characteristics. Financial assets are measured at fair value through profit or loss (“FVTPL”), fair value through other comprehensive income (“FVTOCI”) and amortised cost. These categories replace the existing IAS 39 classifications. For financial liabilities, most of the pre-existing requirements for classification and measurement previously included in IAS 39 were carried forward unchanged into IFRS 9.

An assessment of the Group’s business models was made as at the date of initial application on 3 December 2018 and applied prospectively. The Group has elected to classify its unlisted equity investments as FVTOCI as it intends to hold these investments for the foreseeable future. A summary of the respective classifications under IAS 39 and IFRS 9 is presented below:

	Measurement Category		Carrying Amount at 3 December 2018		
	Original (IAS 39)	New (IFRS 9)	Original £m	New £m	Difference £m
Non-current financial assets					
Unlisted equity investment ⁽¹⁾	Available-for-sale	FVTOCI	0.4	2.4	2.0
Other receivables	Loans and receivables	Amortised cost	3.7	3.7	-
Current financial assets					
Trade receivables	Loans and receivables	Amortised cost	52.4	52.4	-
Other receivables	Loans and receivables	Amortised cost	39.4	39.4	-
Derivative financial instruments	FVTPL	FVTPL	0.1	0.1	-
Cash and cash equivalents	Loans and receivables	Amortised cost	410.8	410.8	-
Current financial liabilities					
Trade payables	Amortised cost	Amortised cost	133.4	133.4	-
Other payables	Amortised cost	Amortised cost	135.2	135.2	-
Lease liabilities	Amortised cost	Amortised cost	22.9	22.9	-
Derivative financial instruments	FVTPL	FVTPL	0.5	0.5	-
Non-current financial liabilities					
Senior secured notes	Amortised cost	Amortised cost	244.3	244.3	-
Lease liabilities	Amortised cost	Amortised cost	93.4	93.4	-

(1) Previously the Group measured the investment at cost less impairment as permitted by IAS 39. Measurement at cost is no longer permitted and an election to measure the investment at FVTOCI has been made.

Impairment

IFRS 9 replaces the “incurred loss” model in IAS 39 with an “expected credit loss” (ECL) model when calculating impairment losses on financial assets measured at amortised cost. Under IFRS 9, credit losses are recognised earlier than under IAS 39 and therefore for assets within the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile.

The Group was required to revise its impairment methodology under IFRS 9. The Group applies the simplified approach allowed under IFRS 9 to measure expected credit losses for trade receivables, which uses a lifetime expected loss allowance.

The Group has found there to be an immaterial difference between the incurred loss model and the ECL model. See note 3.10 for further details.

Hedge Accounting

In accordance with IFRS 9’s transition provisions for hedge accounting, the Group has elected to continue applying the hedge accounting requirements of IAS 39.



Notes to the Consolidated Financial Statements

Continued

1.5 Changes in Significant Accounting Policies Continued

Initial Adoption of IFRS 16 “Leases”

IFRS 16 “Leases” replaces IAS 17 “Leases”. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-Balance-Sheet model.

The standard has an effective date of 1 January 2019 but the Group has decided to adopt it early as it will provide more reliable and useful information to investors and other stakeholders and allow the Group to remain more readily comparable with competitors who will be adopting the standard during the 2019/20 reporting season.

IFRS 16 has been applied using the modified retrospective approach with the date of initial application of 3 December 2018. Under this approach, right-of-use assets being equal to lease liabilities, there is no effect on retained earnings at 3 December 2018. Prior periods have not been restated.

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

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

Practical Expedients Applied

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

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

The Group has applied the exemption not to recognise the right-of-use assets and liabilities for leases with a remaining lease term of less than 12 months from the date of initial application.

Upon transition several contracts that had previously been identified as leases, and included within the operating lease commitments note at 2 December 2018, were reassessed and determined not to be leases.

Measurement of Lease Liabilities

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

	£m
Total operating lease commitments disclosed under IAS 17 at 2 December 2018	408.3
Fixed commitments for service contracts costs	(18.2)
Operating lease liabilities before discounting	390.1
Operating lease liabilities after discounting	283.1
Finance lease liabilities recognised under IAS 17 at 2 December 2018	116.3
Total lease liabilities recognised under IFRS 16 at 3 December 2018	399.4
Representing:	
Current lease liabilities	35.2
Non-current lease liabilities	364.2
	399.4

Measurement of Right-of-Use Assets

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



1.5 Changes in Significant Accounting Policies Continued

Adjustments Recognised on the Balance Sheet on 3 December 2018

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

	Notes	Carrying Amount at 2 December 2018 £m	Reclassification £m	Re-measurement £m	IFRS 16 Carrying Amount at 3 December 2018 £m
Property, plant and equipment	3.3	556.7	(114.1)	–	442.6
Right-of-use assets	3.4	–	114.1	275.9	390.0
Trade and other receivables	3.10	104.7	–	(0.9)	103.8
Trade and other payables	3.12	(291.0)	–	11.3	(279.7)
Lease liabilities	4.3	(116.3)	–	(283.1)	(399.4)
Provisions	3.13	(17.1)	–	(3.2)	(20.3)
Total		237.0	–	–	237.0

The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets of £275.9 million, lease liabilities of £283.1 million and dilapidations provisions of £3.2 million.

Assets under finance lease arrangements of £114.1 million previously presented within property, plant and equipment were reclassified to right-of-use assets.

Lease incentive liabilities of £11.3 million previously recognised with respect to operating leases and previously presented within trade and other payables are now presented in the right-of-use assets line.

Prepaid lease payments of £0.9 million previously recognised with respect to operating leases and previously presented within trade and other receivables were reclassified in the right-of-use assets line.

There was no net effect on retained earnings at 3 December 2018.

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

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

Post transition the Group would use optional exemptions for low value items and short term leases.

1.6 Going Concern Basis

Accounting standards require that Directors satisfy themselves that it is reasonable for them to conclude on whether or not it is appropriate to prepare financial statements on the going concern basis. There has been no material uncertainty identified which would cast significant doubt upon the Group's ability to continue using the going concern basis of accounting for the 12 months following the approval of this Annual Report.

In assessing going concern, the Directors take into account the Group's cash flows, solvency and liquidity positions and borrowing facilities. At the period end, the Group had cash and cash equivalents of £750.6 million (2018: £410.8 million), external gross debt[®] (excluding lease liabilities payable to MHE JVCo) of £544.2 million (2018: £286.1 million) and net current assets of £549.9 million (2018: £247.0 million). The Group has a mix of short and medium-term financing arrangements and has £225.0 million of senior secured notes due in 2024 and a £100.0 million revolving credit facility which contains typical financial covenants and runs until June 2022. The facility has not been drawn down to date. The Group forecasts its liquidity requirements, working capital position and the maintenance of sufficient headroom against the financial covenants in its borrowing facilities. The financial position of the Group, including information on cash flows, can be found in Our Financials on pages 142 to 221. In determining whether there are material uncertainties, the Directors consider the Group's business activities, together with factors that are likely to affect its future development and position (see Our Strategy on pages 12 and 65) and the Group's principal risks and the likely effectiveness of any mitigating actions and controls available to the Directors (see pages 48 to 52).

Further details of the Group's considerations are provided in the Group's Viability and Going Concern Statement on page 53.



Notes to the Consolidated Financial Statements

Continued

Section 2 — Results for the Period

2.1 Loss Before Tax

Accounting Policies

Revenue

Revenue represents the transaction prices to which Ocado expects to be entitled in return for delivering goods or services to its customers. The value recognised in any period is based on a 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. The following provides information about the nature and timing of the satisfaction of performance obligations in our contracts and the related revenue recognition policies, categorised by reportable segments. For information about reportable segments see note 2.2.

Retail Segment

Identification of Performance Obligations

In a typical retail contract there is one performance obligation, which is to deliver goods ordered online to the retail customer at the scheduled time and to the agreed address. “Ocado Smart Pass”, the Group’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 applies the practical expedient allowed under IFRS 15 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 doing so does not materially affect the financial statements.

Determining Transaction Prices

Customers pay in full at the point of sale. The retail 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 guidance on variable consideration in IFRS 15. Standard delivery charges and carrier bag receipts are included in transaction prices. Smart Pass transaction prices are the contracted values of the memberships for the agreed periods of delivery services.

Allocation of Transaction Prices to Performance Obligations

Each contract has a single performance obligation and so the whole 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. The contingent consideration is estimated at expected value.

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 usually 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.

UK Solutions and International Solutions Segments

Identification of Performance Obligations

Solutions contracts are allocated to one of the two Solutions segments based on geography. The approach taken to evaluate the accounting treatment of a contract is the same for both segments, with each contract being considered on a case-by-case basis. A typical Ocado Solutions contract has a single performance obligation: “to enable the client to access the OSP end-to-end online grocery platform from the go-live date, with an agreed physical capacity, from a CFC for example, for the use of its retail brands”. The ability to derive independent benefit is a key determinant. For example, there are several critical contractual milestones which occur before the service is operational, such as the design of the CFC for the client or preparation of the OSP. However, management has concluded that the customer is not able to derive any benefit from these individual elements until the service is operational and they are able to fulfil an order. Depending on the individual customer, fulfilment of an order may include the delivery of goods to the final consumer, and this would make up part of the obligation.

Consequently, designing the CFC or building the customer OSP is not a separate performance obligation and no revenue can be assigned to satisfying these aspects of the contract. Some contracts, however, will have multiple components, for example, the addition of Store Pick services or additional CFCs, which could lead to additional distinct performance obligations. In these situations, management will use its judgement to determine whether there are separable performance obligations from which the customer is able to benefit independently.

Determining Transaction Prices

At the inception of a contract, the total transaction price is estimated, being the amount to which the Group expects to be entitled over the expected duration of the contract, based on the rights it has under the present contract. Such expected amounts are only included to the extent that it is highly probable that no revenue reversal will occur.

In order to arrive at the transaction price, management is initially required to make a judgement about the duration of the contract. The majority of our Solutions contracts do not have a fixed term, but run for an indefinite period until cancelled. For the purposes of applying IFRS 15, and in particular making the disclosures in respect of unsatisfied performance obligations, management determines the duration of a contract having considered the type of contract, performance against contractual service-level agreements (“SLAs”) and termination provisions. The point at which any termination penalties payable by the customer would no longer be considered “substantive” is particularly relevant. This key judgement on contract duration defines the period for which unsatisfied and partially unsatisfied performance obligations are measured and disclosed when calculating the transaction price.

Typically, our Solutions contracts include both upfront fees, paid by the customer in the period prior to the solution going live, and subsequent annual amounts that are either recurring or variable. The upfront fees are one-off payments and are included in the transaction price and recognised over the expected customer life. Expected customer life is a key judgement as it affects the amount of deferred upfront fees that are released as revenue each period and the factors considered in reaching the judgement on expected customer life include the nature of the performance obligation, the scale of current and future planned investment, performance against contractual SLAs, the evolving technology and competitive landscape. The judgements made for contract duration may be different to those judgements for expected customer life.



2.1 Loss Before Tax Continued

A Solutions contract often includes recurring fees which are due on an annual basis throughout the contract, and are recognised over the duration of the contract and are included in the estimate of the total transaction price.

Variable amounts are annual fees whereby typically the variability relates to the volume of sales transactions processed or variable costs associated with providing the service to the customer. We determine that these variable amounts should be recognised in the period in which they arise, because they relate to the services provided in that period. In determining the total transaction price for disclosure we have estimated the amount of future variable consideration for the contract duration described above.

IFRS 15 requires estimates of future variable consideration to adopt a conservative amount that is “highly probable” to become due. In respect of agreements that are already operating, we have reached our constrained estimate by assuming 90.0% of FY18 performance. This estimate excludes potential benefits from both indexation and future revenue growth from capacity improvements and the continued channel shift to online in the industry. It also considers potential risks from new entrants to the online fulfilment market as it continues to grow and the competitive nature of the grocery market itself which could have an adverse effect on volumes.

Although for most Solutions contracts there is the possibility that the customer will add capacity in the form of additional modules in existing CFCs or additional CFCs in new locations, which would lead to increased revenue, this has been excluded from the calculation of the estimated transaction price.

Taken together we therefore consider that this approach represents a suitably conservative view of future estimated revenue in the disclosures of unsatisfied obligations as required by IFRS 15.

For each Solutions contract an assessment has been made by the Group as to whether there is a significant finance benefit arising from the timing of payments required from the customer. Judgement is required to choose an appropriate interest rate used in the assessment and to set a reasonable threshold for determining whether any finance benefit is significant.

Allocation of Transaction Prices to Performance Obligations

Single component contracts have a single performance obligation and the whole transaction price is assigned to that single deliverable. Multiple component contracts will have more than one obligation, each with its own contract duration as judged by management. Each contract clearly states the fees relating to each component. This provides management with a basis for allocation of the calculated transaction price to the performance obligations as required by the standard in proportion to their relative revenue value in the contract.

Revenue Recognition

For each performance obligation and its allocated transaction price, recognition of the revenue is made from the point at which the customer starts to benefit from the services and over the period the services are provided. The nature of the services provided, that is the ability to fulfil online grocery orders, represents equal value to the customer every day that the service is provided. This uniformity of value to the customer over time has led the Group to the decision that the most appropriate way of measuring the satisfaction of obligations is to use a straight-line time elapsed basis. IFRS 15 defines this as an “output method” which recognises revenue by reference to the value to the customer.

Judgement is applied in relation to contract and customer lives as typically contracts have no end date. Depending on the expected contract life, the amount and timing of revenue recognised may be different in the relevant accounting periods. As the Group has not yet launched a CFC internationally, the Directors have limited relevant historical information on which to base their assumptions. Therefore, in making their judgements, the Directors have considered qualitative and quantitative reasonable and supportable information such as market evidence and certain clauses contained within Solutions contracts.

Contract Modifications

The Group’s contracts may be amended for changes to specifications and requirements. Contract modifications exist when the amendment either creates new or changes the existing enforceable rights and obligations. The effect of a contract modification on the transaction price and the Group’s measure of progress for the performance obligation to which it relates, is recognised as an adjustment to revenue in one of the following ways:

- a. prospectively as an additional separate contract;
- b. prospectively as a termination of the existing contract and creation of a new contract;
- c. as part of the original contract using a cumulative catch-up; or
- d. as a combination of b. and c.

For contracts for which the Group has decided there is a series of distinct goods and services that are substantially the same and have the same pattern of transfer where revenue is recognised over time, the modification will always be treated under a. or b.

The facts and circumstances of any contract modification are considered individually as the types of modifications will vary contract by contract and may result in different accounting outcomes.

Judgement is applied in relation to the accounting for such modifications where the final terms or legal contracts have not been agreed prior to the period end as management needs to determine if a modification has been approved and if it either creates new or changes existing enforceable rights and obligations of the parties. Depending upon the outcome of such negotiations, the timing and amount of revenue recognised may be different in the relevant accounting periods. Modification and amendments to contracts are undertaken via an agreed formal process. For example, if a change in scope has been approved but the corresponding change in price is still being negotiated, management uses its judgement to estimate the change to the total transaction price. Importantly, any variable consideration is only recognised to the extent that it is highly probable that no revenue reversal will occur.



Notes to the Consolidated Financial Statements

Continued

2.1 Loss Before Tax Continued

Contract Costs and Liabilities

As a result of the contracts into which the Group enters with its clients, a number of different assets and liabilities are recognised on the Group's Balance Sheet. These include but are not limited to:

- property, plant and equipment;
- intangible assets;
- costs to obtain contracts;
- contract liabilities.

Incremental Costs of Obtaining a Contract

These are costs that are incurred to obtain a contract with a customer that would not have been incurred if the contract had not been obtained. Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained or not shall be recognised as an expense when incurred, unless those costs are explicitly chargeable to the customer regardless of whether the contract is obtained.

The incremental costs of obtaining a contract with a customer are recognised as an asset if they are expected to be recoverable.

Utilisation, Derecognition and Impairment of Costs to Obtain a Contract

Incremental costs to obtain a contract are amortised on a basis that is consistent with the transfer to the customer of the goods or services to which the asset relates.

Incremental costs to obtain a contract are derecognised either when they are disposed of or when no further economic benefits are expected to flow from their use or disposal.

Management is required to determine the recoverability of contract-related assets within property, plant and equipment, intangible assets, capitalised costs to obtain a contract, accrued income and trade receivables. At each reporting date, the Group determines whether or not the capitalised costs to obtain a contract are impaired by comparing the carrying amount of the asset to the remaining amount of consideration that the Group expects to receive less the costs that relate to providing services under the relevant contract. In determining the estimated amount of consideration, the Group uses the same principles as it does to determine the contract transaction price, except that any constraints used to reduce the transaction price will be removed for the impairment test.

Contract Liabilities

The Group's customer contracts include a diverse range of payment schedules dependent upon the nature and type of goods and services being provided. The Group often agrees payment schedules at the inception of long-term contracts under which it receives payments throughout the term of the contracts. These payment schedules may include performance-based payments or progress payments as well as regular monthly or quarterly payments for ongoing service delivery. Payments for transactional goods and services may be at delivery date, in arrears or part payment in advance. Where payments made (or when the Group has an unconditional right to payment) are greater than the revenue recognised at the period end date, the Group recognises a contract liability. Where payments made are less than the revenue recognised at the period end date, and the Group has an unconditional right to payment, the Group recognises accrued income for this difference.

Cost of Sales

Cost of sales represents the cost of groceries and other products the Group 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 Group 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. For the 52 weeks ended 1 December 2019, promotional allowances represent 84% (2018: 80%) of commercial income, with volume-related rebates representing 16% (2018: 20%).

Promotional Allowances

Cost of sales includes monies received from suppliers in relation to the agreed funding of selected items that are sold by the Group on promotion, and these are 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 the period end date. Estimates are required due to the fact that confirmation of some amounts due is often only received three to six months after the period end. Where estimates are required, these are based on current performance, historical data for prior periods and a review of significant supplier contracts. A material amount of this income is received from third parties via the Group's supply agreement with Waitrose. The estimates for this income are prepared following discussions with Waitrose throughout the period and are reviewed regularly by senior management.

Uncollected Commercial Income

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

Other Income

Other income comprises the fair value of consideration received or receivable for advertising services provided by Ocado 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 for the amount of income in relation to campaigns that may span the period end; however, such adjustments are not typically material.



2.1 Loss Before Tax Continued

Employee Benefits

The Group contributes to the personal pension plans of its staff through two pension plans: a defined contribution Group personal pension, which is administered by Legal & General, and a defined contribution Money Purchase Scheme administered by People's Pensions. Legacy employer contributions to the schemes are calculated as a percentage of salary based on length of scheme membership. From October 2017 new members to the scheme are enrolled into a matching contribution structure. Contributions are charged to the Income Statement in the period to which they relate.

Distribution Costs

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. 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. These include costs incurred on behalf of Morrisons which are subsequently recharged.

Administrative Expenses

Administrative expenses consist of all IT costs, advertising and marketing expenditure (excluding vouchers), share-based payment 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. These include costs incurred on behalf of Morrisons which are subsequently recharged.

Exceptional Items

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

The Group has adopted a three-columned approach to the Consolidated Income Statement to aid clarity and allow users of the financial statements to understand more easily the performance of the underlying business and the impact of one-off events.

The Group believes this format is useful as it highlights non-recurring items, such as the costs relating to a warehouse fire, corporate reorganisation and restructuring costs, profit or loss on disposal of operations, impairment of assets and any material costs outside the normal course of business.

2.2 Segmental Reporting

The Group's principal activities are grocery retailing and the development and monetisation of Intellectual Property ("IP") and technology used for online grocery retailing, fulfilment and logistics and services in the UK. The Group is not currently 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 ("CODM"), for which discrete information is available. Operating segments are reported in a manner consistent with the internal reporting provided to the CODM, as required by IFRS 8. The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Directors.

The separation of Ocado's Retail and Logistics operations into distinct business units and the creation of the joint venture with M&S have led to changes in how the management team reports and manages performance. The Group has determined it now has three reportable segments: Retail, UK Solutions and International Solutions. The 2019 segmental disclosures have been prepared to reflect this structure for the full year, with the 2018 comparatives re-presented on this basis.

The Retail segment provides online grocery and general merchandise offerings to customers within the United Kingdom, and comprises the Ocado Retail joint venture. The UK Solutions segment provides the IT platform, CFCs and logistics for customers in the United Kingdom (Morrisons and Ocado Retail). The International Solutions segment provides end-to-end online retail solutions to corporate customers outside the United Kingdom. In order to reconcile segmental revenues and EBITDA® with the Group's revenue and EBITDA®, two other headings are used: "Other" represents revenue and costs which do not relate to any of the three segments; "Group Eliminations" relates to revenue and costs arising from intra-Group transactions.

The Board assesses the performance of all segments on the basis of EBITDA®. EBITDA®, as reported internally by segment, is the key measure utilised in assessing the performance of operating segments within the Group.

The accounting policies of the segments are the same as those for the Group as a whole. Any transactions between the business segments are subject to normal commercial terms and market conditions. Segmental results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segmental Revenue and EBITDA®	Retail £m	UK Solutions £m	International Solutions £m	Other £m	Group Elimination £m	Total £m
2018						
Segmental revenue®	1,466.6	541.1	0.5	9.2	(418.6)	1,598.8
Segmental EBITDA®	30.1	67.5	(28.4)	(9.7)	-	59.5
2019						
Segmental revenue®	1,617.5	583.2	0.5	9.8	(454.4)	1,756.6
Segmental EBITDA®	35.0	84.8	(62.1)	(14.4)	-	43.3

(1) Revenue and EBITDA® for the prior period have been re-presented to reflect the change in reportable segments during the period.

No measure of total assets and total liabilities is reported for each reportable segment, as such amounts are not regularly provided to the chief operating decision-maker.

® See Alternative Performance Measures on pages 227 and 228.



Notes to the Consolidated Financial Statements

Continued

2.3 Revenue from Contracts with Customers

Disaggregation of Revenue from Contracts with Customers

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	52 Weeks Ended 1 December 2019 £m	52 Weeks Ended 2 December 2018 £m
Segmental Revenue		
Retail	1,617.5	1,466.6
UK Solutions	583.2	541.1
International Solutions	0.5	0.5
Other	9.8	9.2
Group Eliminations	(454.4)	(418.6)
	1,756.6	1,598.8
Timing of Revenue Recognition		
At a point in time	1,626.4	1,475.8
Over time	130.2	123.0
	1,756.6	1,598.8

Contract Balances

	Notes	1 December 2019 £m	2 December 2018 £m	3 December 2017 £m
Trade receivables	3.10	12.3	8.6	8.6
Contract assets		0.4	–	–
Contract liabilities		(191.8)	(115.2)	(49.7)

Analysis of total contract assets:

	1 December 2019 £m	2 December 2018 £m	3 December 2017 £m
Current	0.1	–	–
Non-current	0.3	–	–
	0.4	–	–

The contract assets represent Solutions revenue recognised in the Consolidated Income Statement, but net yet invoiced.

Significant changes in the contract assets balance during the period are as follows:

	52 Weeks Ended 1 December 2019 £m	52 Weeks Ended 2 December 2018 £m
At the beginning of the period	–	–
Recognised as revenue	0.4	–
At the end of the period	0.4	–

Analysis of total contract liabilities:

	1 December 2019 £m	2 December 2018 £m	3 December 2017 £m
Current	(5.1)	(6.6)	(4.7)
Non-current	(186.7)	(108.6)	(45.0)
	(191.8)	(115.2)	(49.7)

The contract liabilities primarily relate to the advance consideration received from customers for Solutions contracts, for which revenue is recognised as the performance obligation is satisfied.



2.3 Revenue from Contracts with Customers Continued

Significant changes in the contract liabilities balance during the period are as follows:

	52 Weeks Ended 1 December 2019 £m	52 Weeks Ended 2 December 2018 £m
At the beginning of the period	(115.2)	(49.7)
Increase due to cash received	(79.5)	(70.2)
Recognised as revenue	2.9	4.7
At the end of the period	(191.8)	(115.2)

Set out below is the amount of revenue recognised from:

	52 Weeks Ended 1 December 2019 £m	52 Weeks Ended 2 December 2018 £m
Amount included in the contract liabilities at the beginning of the period	2.9	4.7

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) is as follows:

	1 December 2019 £m	2 December 2018 £m
Within one year	114.5	112.0
Between one and five years	1,004.9	833.4
More than five years	3,308.8	2,135.6
Total transaction price	4,428.2	3,081.0

Total transaction price includes £1,824.0 million (2018: £1,736.3 million) in respect of potential revenues in relation to the recovery of costs that are expected to be incurred in existing Solutions contracts.

The amounts disclosed above in respect of unsatisfied and partially unsatisfied performance obligations do not include estimates of any amounts that will arise if the customer continues to receive services beyond our estimate of the contract term. In addition, they are reduced, during the contract term, so as to limit our estimate of future variable amounts to a conservative amount that is "highly probable". For additional information in respect of key judgements, please refer to note 2.1. The figures disclosed do not include any incremental amounts in relation to CFCs and other solutions to which a customer is not yet committed. However, they do include any amounts that are payable by the customer irrespective of whether an option for future CFCs and other solutions is exercised (e.g. amounts that are equivalent to a non-refundable deposit).

Costs to Obtain Contracts

	52 Weeks Ended 1 December 2019 £m	52 Weeks Ended 2 December 2018 £m
At the beginning of the period	0.8	–
Additions	–	0.8
At the end of the period	0.8	0.8

Management expects that the incremental costs of obtaining contracts (i.e. sales bonuses) are recoverable. The Group therefore capitalises them as costs to obtain contracts.

These capitalised costs will be amortised over the period of transferring goods or services to the customer.

2.4 Other Income

Other income comprises:

	52 Weeks Ended 1 December 2019 £m	52 Weeks Ended 2 December 2018 £m
Media and other income	70.6	58.5
Exceptional insurance income	23.8	–
Rental income	13.3	13.4
Other income	107.7	71.9



Notes to the Consolidated Financial Statements

Continued

2.5 Operating Expenses

Operating expenses include:

	Notes	52 Weeks Ended 1 December 2019 £m	52 Weeks Ended 2 December 2018 £m
Cost of inventories recognised as an expense		1,145.8	1,035.5
Employment costs	2.6	383.0	319.7
Amortisation expense	3.2	37.3	27.1
Depreciation of property, plant and equipment	3.3	46.0	63.3
Depreciation of right-of-use assets	3.4	50.4	–
Impairment of property, plant and equipment included in distribution costs	3.3	0.6	0.5
Impairment of intangible assets included in administrative expenses	3.2	1.8	0.4
increase/(decrease) in provision for impairment of receivables	3.10	0.7	(1.1)
Research and development costs		0.1	–
Operating lease rentals:			
– Land and buildings		0.7	20.9
Net foreign exchange movements		0.4	0.1

During the period, the Group paid the following to its auditor:

	Notes	52 Weeks Ended 1 December 2019 £'000	52 Weeks Ended 2 December 2018 £'000
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements		80	75
Fees payable to the Company's auditor and its associates for the audit of the Company's subsidiaries		718	356
Other fees payable for statutory audit services		70	25
Total audit fees		868	456
Audit-related assurance services			
– ISRE 2410 services		50	39
Other assurance services:			
– Transaction support services required by regulation		70	–
– Other transaction support services		265	–
– Agreed upon assurance services		30	–
Total non-audit fees		415	39
		1,283	495

The Audit Committee considered that certain non-audit services relating to the part-disposal of Ocado Retail should be provided by the external auditor because its existing knowledge of the business made this the most efficient and effective way for these services to be performed.

2.6 Employee Information

Employment costs during the financial period were as follows:

	Notes	52 Weeks Ended 1 December 2019 £m	52 Weeks Ended 2 December 2018 £m
Wages and salaries		403.2	337.8
Social security costs		37.3	29.8
Other pension costs		12.1	7.7
Share-based payment expense ⁽¹⁾		24.2	13.1
Total gross employment costs		476.8	388.4
Staff costs capitalised as intangible assets	3.2	(70.2)	(51.5)
Staff costs capitalised as property, plant and equipment	3.3	(23.6)	(17.2)
Total employment cost		383.0	319.7
Average monthly number of employees (including Executive Directors) by function			
Operational staff		12,406	11,199
Support staff		2,738	2,253
		15,144	13,452

(1) Included in the share-based payment expense is the IFRS 2 equity-settled charge of £12.8 million (2018: £6.1 million) and an additional provision of £11.4 million (2018: £7.0 million) for the payment of amounts due to participants in the Cash LTIP and for the payment of employer's National Insurance contributions on certain employee incentive schemes.



2.7 Exceptional Items

	52 Weeks Ended 1 December 2019 £m	52 Weeks Ended 2 December 2018 £m
Andover CFC		
- Write-off of property, plant and equipment	96.9	-
- Write-off of intangible assets	2.1	-
- Loss of inventory	5.5	-
- Insurance reimbursement	(23.8)	-
- Other exceptional costs	7.3	-
Loss on disposal of Marie Claire Beauty Limited ("Fabled")	1.1	-
Costs on creation of joint venture with Marks & Spencer	3.4	-
Litigation costs	1.3	0.1
Other exceptional costs	0.3	-
	94.1	0.1

Andover CFC

In February 2019 a fire destroyed the Andover CFC, including the building, machinery and all inventory held on site. The Group has comprehensive insurance and claims have been formally accepted by the insurers.

Write-Off of Property, Plant and Equipment and Intangible Assets

Property, plant and equipment with a net book value of £96.9 million was destroyed or damaged to the extent that no amount is expected to be recoverable. Where amounts are expected to be recovered, for example through scrap proceeds, those assets are impaired to that recoverable amount. Intangible assets with a net book value of £2.1 million were written off as it was determined these costs were specific to the Andover location and infrastructure.

Loss of Inventory

Inventory held at cost of £5.5 million was destroyed by the fire.

Other Exceptional Costs

These include, but are not limited to, temporary costs of transporting employees to other warehouses to work, professional fees relating to the insurance claims process, reimbursement of employees' personal assets that were destroyed and redundancy costs.

Insurance Reimbursement

This includes insurance reimbursements for the retail price of destroyed inventory and other incremental costs plus a portion of business interruption losses. The reimbursement has been presented within "other income". A portion of reimbursements has been received and recorded as deferred income. This will be released to profit or loss in the future as the rebuilding costs of the CFC are incurred.

The Group expects to receive further insurance reimbursements in respect of reconstruction costs and business interruption losses. Claim negotiations are ongoing and the Group has not included any further amount in respect of these reimbursements as the likely insurance proceeds cannot be quantified accurately at this point. Income will be recognised in the future as the rebuilding costs of the CFC are incurred.

Disposal of Fabled

On 8 July 2019 the Group sold Fabled, its wholly-owned subsidiary, to Next Holdings Limited for a nominal upfront payment and an earn-out based on its sales in each of the four years ending January 2021–2024, with a minimum guaranteed payment of £3.0 million. At the time of the sale, the fair value of the consideration was determined to be £15.5 million, resulting in a profit on disposal of £8.8 million. At 1 December 2019 the fair value was re-estimated to be £5.6 million. The loss of £9.9 million has been deducted from the profit on disposal, creating a loss of £1.1 million. The consideration receivable has been recognised as a financial asset at fair value through profit or loss (see note 3.5). In January 2020 £2.9 million was received by Ocado as an initial payment of the consideration.

	52 Weeks Ended 1 December 2019 £m
Consideration received:	
Cash	-
Fair value of contingent consideration	5.6
Total disposal consideration	5.6
Less: carrying amount of net assets sold	(6.3)
Less: transaction fees	(0.4)
Loss on disposal	(1.1)



Notes to the Consolidated Financial Statements

Continued

2.7 Exceptional Items Continued

The carrying amounts of Fabled's assets and liabilities as at the date of sale were:

	8 July 2019 £m
Property, plant and equipment	1.2
Trade and other receivables	2.0
Inventories	6.2
Cash and cash equivalents	0.3
Total assets	9.7
Trade and other payables	(3.4)
Total liabilities	(3.4)
Net assets	6.3

Joint venture with Marks & Spencer ("M&S")

In August 2019 the Group completed the creation of a new 50:50 joint venture with M&S. The joint venture comprises Ocado's grocery retail business in the United Kingdom supported by a new partnership for Solutions services underpinned by Ocado Smart Platform and the provision of branding and sourcing from M&S. M&S products will be available on Ocado.com by September 2020, replacing Ocado's current sourcing agreement with Waitrose Limited. M&S has paid Ocado £562.5 million cash upfront and has agreed to a deferred cash payment of £187.5 million five years after completion dependent on the satisfaction of certain financial and operational conditions. The difference between the fair value of the identifiable net assets of Ocado Retail and the fair value of the consideration received has been recognised directly in equity and attributed to the owners of the Group (see note 5.2). The contingent consideration receivable has been recognised as a financial asset at fair value through profit or loss (see note 3.5).

While certain costs relating to the transaction are permitted to be accounted for directly within equity, there are others that do not meet the requirements and as a result have been reported as exceptional costs. These include, but are not limited to, legal fees for advice relating to TUPE regulations, contractors' fees incurred relating to transitional arrangements and accelerated share-based payment expenses for those employees who transferred to the new joint venture.

Litigation Costs

The Group has made a claim for damages and for injunctive relief against Jonathan Faiman, Jonathan Hilary and Project Today Holdings Limited, a software and online fulfilment company trading under the name T0day, because of the theft and unlawful use of the Group's Intellectual Property ("IP"). The Group believes strongly in the merit of its case. Ocado's IP is its greatest asset and represents a significant portion of the Group's value. It has spent the last 20 years developing its IP, technology and know-how. The Group relishes fair competition, but vigorously protects its IP and challenges any individual or organisation that uses information obtained illegally, whether directly or indirectly. Management is determined to protect its stakeholders' interests.

Legal and other costs have been incurred to recover the stolen items and seek compensation.

There were no material tax effects arising from exceptional items. For cash flow effects from exceptional items, refer to the Consolidated Statement of Cash Flows on page 155.

2.8 Income Tax

Accounting Policies

The tax charge for the period comprises current and deferred tax. Tax is recognised in the Consolidated 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 Tax

Current tax is the expected tax payable on the taxable income for the period, calculated using tax rates 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 Tax

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 income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of reversal of the temporary differences is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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 forecast that the Group 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 tax assets against current tax liabilities and it is the intention to settle these on a net basis.

Research and Development Expenditure Credit

The Group takes advantage of the incentives offered under the UK's Research and Development Expenditure Credit ("RDEC") regime to claim a credit for the Group's significant expenditure on qualifying research and development. As enacted in the Finance Bill 2017-18, the credit due to the Group is equal to 12.0% of the Group's qualifying expenditure. The Group continues to utilise the additional benefits from the scheme in light of the Group's commitment to its innovative technology and software.



2.8 Income Tax Continued

During the period the Group claimed a credit of £4.1 million for the 52 weeks ended 2 December 2018 (2018: £3.0 million for the 53 weeks ended 3 December 2017).

Future Changes to Tax Legislation

The Group undertakes regular reviews in order to ensure its ongoing compliance with current and future proposed changes to United Kingdom tax legislation. The Group has undertaken a review of the Group's activities in light of the OECD's Base Erosion and Profit Shifting ("BEPS") publications and does not foresee any significant impact on the Group's effective tax rate resulting from the proposed changes in the short to medium term.

The Group's future tax charge, and effective tax rate, could be affected by several factors including tax reform in countries around the world, including any arising from the OECD's or European Commission's work on the taxation of the digital economy and European Commission initiatives such as the anti-tax avoidance directive.

We do not anticipate any significant impact on our future tax charge, liabilities or assets, as a result of the triggering of Article 50(2) of the Treaty on European Union but cannot rule out the possibility that, for example, a failure to reach satisfactory arrangements for the United Kingdom's future relationship with the European Union could have an impact on such matters. We continue to monitor developments in this area.

Income Tax — Income Statement

	52 Weeks Ended 1 December 2019 £m	52 Weeks Ended 2 December 2018 £m
Recognised in the Consolidated Income Statement		
Current tax:		
UK Corporation Tax on profits for the period	–	–
Overseas corporation tax on profits for the period	0.5	–
Adjustments in respect of prior periods	–	0.1
Total current tax	0.5	0.1
Deferred tax:		
Overseas deferred tax on profits for the period	–	0.4
Origination and reversal of temporary differences	(3.2)	–
Total deferred tax	(3.2)	0.4
Income tax (credit)/charge	(2.7)	0.5

The tax on the Group's loss before tax differs from the theoretical amount that would arise using the effective tax rate applicable to profits of the Group as follows:

	52 Weeks Ended 1 December 2019 £m	52 Weeks Ended 2 December 2018 £m
Loss before tax	(214.5)	(44.4)
Effective tax charge at the UK tax rate of 19% (2018: 19%)	(40.8)	(8.4)
Effect of:		
Losses arising in period on which no deferred tax is recognised	10.7	(2.0)
Permanent differences	(15.0)	(8.3)
Differences in overseas tax rates	(0.1)	–
Temporary differences on which no deferred tax is recognised	42.5	19.1
Prior period adjustments	–	0.1
Income tax (credit)/charge for the period	(2.7)	0.5

Income Tax — Balance Sheet

Movement in the deferred tax asset is as follows:

	Tax Losses Carried Forward £m	Other Short-Term Timing Differences £m	Total £m
As at 3 December 2017	14.3	–	14.3
Recognised through the Consolidated Income Statement	(4.8)	7.1	2.3
As at 2 December 2018	9.5	7.1	16.6
Recognised through the Consolidated Income Statement	13.0	(2.4)	10.6
As at 1 December 2019	22.5	4.7	27.2

The Finance Act 2016 included legislation to reduce the main rate of UK Corporation Tax from 19.0% to 17.0% from 1 April 2020. Deferred tax has been provided at the rate at which the deferred tax asset is expected to be utilised.



Notes to the Consolidated Financial Statements

Continued

2.8 Income Tax Continued

Movement in the unrecognised deferred tax asset is set out below:

	Tax Losses Carried Forward £m	Accelerated Capital Allowances £m	Other Short-Term Timing Differences £m	Total £m
As at 3 December 2017	20.9	22.7	(3.1)	40.5
Potential movement in the period unrecognised through:				
- Consolidated Income Statement	13.7	(2.3)	4.1	15.5
As at 2 December 2018	34.6	20.4	1.0	56.0
Effect of change in UK Corporation Tax rate				
Potential movement in the period unrecognised through:				
- Consolidated Income Statement	(8.7)	18.6	-	9.9
As at 1 December 2019	25.9	39.0	1.0	65.9

As at 1 December 2019 the Group had approximately £284.7 million of unutilised tax losses (2018: approximately £256.4 million) available to offset against future profits. A deferred tax asset of £22.5 million (2018: £9.5 million) has been recognised in respect of £132.4 million (2018: £55.9 million) of such losses, the recovery of which is supported by the expected level of future profits of the Group. The recognition of the deferred tax asset is based on forecast operating results calculated in approved business plans and a review of tax planning opportunities.

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.

Management has concluded that there is sufficient evidence for the recognition of the deferred tax asset of £27.2 million (2018: £16.6 million).

Movement in the recognised deferred tax liability is set out below:

	Accelerated Capital Allowances £m
As at 3 December 2017	(7.0)
Recognised through the Consolidated Income Statement	(1.9)
As at 2 December 2018	(8.9)
Recognised through the Consolidated Income Statement	(7.4)
As at 1 December 2019	(16.3)

For the period ended 1 December 2019 the Group has recognised a deferred tax liability of £16.3 million (2018: £8.9 million). Of this amount, £16.3 million (2018: £8.8 million) is in respect of intangible assets that management assessed as qualifying for research and development Corporation Tax relief. The timing of the tax deductions in respect of expenditure incurred on these assets differs from the amortisation profile of the assets giving rise to the deferred tax liability. This liability will be unwound over the useful lives of the assets.

2.9 Loss Per Share

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares held pursuant to the Group's Joint Share Ownership Scheme ("JSOS"), and linked jointly-owned equity ("JOE") awards under the Value Creation Plan ("VCP"), which are accounted for as treasury shares.

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion or vesting of all dilutive potential shares. The Company has four classes of instruments that are potentially dilutive: share options, share interests held pursuant to the Group's JSOS, linked JOE awards under the VCP and shares under the Group's staff incentive plans.

There was no difference in the weighted average number of shares used for the calculation of basic and diluted loss per share as the effect of all potentially dilutive shares outstanding was anti-dilutive.

Basic and diluted loss per share have been calculated as follows:

	52 Weeks Ended 1 December 2019 Million	52 Weeks Ended 2 December 2018 Million
Weighted average number of shares at the end of the period	725.7	655.4
Loss attributable to the owners of the Company	(213.1)	(44.9)
Basic and diluted loss per share	pence	pence
	(29.37)	(6.85)



Section 3 — Assets and Liabilities

3.1 Business Combinations

Accounting Policies

Business Combinations

The acquisition method of accounting is used for the acquisition of subsidiaries. The cost of the acquisition is measured at the aggregate fair value of the consideration given. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business Combinations" are recognised at their fair values at the date the Group assumes control of the acquiree.

Acquisition-related costs are recognised in the Consolidated Income Statement as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement measured at fair value at the date control is achieved. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRS Standards.

On 7 June 2019 the Group acquired 64.1% of the issued share capital of Jones Food Company Limited, a non-listed company based in England and specialising in vertical farming, thereby obtaining control over it. The acquisition was made to allow access to advanced growing technology that will enable the Group to offer the freshest and most sustainable produce, with delivery to a customer's kitchen possible within an hour of it being picked, complementing the Group's existing businesses.

The Group has elected to measure the non-controlling interest in Jones Food Company as the proportionate share of its interest in Jones Food Company's identifiable net assets.

Assets Acquired and Liabilities Assumed

The fair values of the identifiable assets and liabilities of Jones Food Company as at the date of acquisition were:

	Fair Value Recognised on Acquisition £m
Assets	
Property, plant and equipment	5.5
Trade and other receivables	0.1
Cash and cash equivalents	1.0
	6.6
Liabilities	
Trade and other payables	(0.5)
Total identifiable net assets at fair value	6.1
Consideration transferred	8.6
Add: non-controlling interest (35.9% of net assets)	2.2
Less: fair value of identifiable net assets	(6.1)
Goodwill	4.7

	Cash Flow on Acquisition £m
Analysis of cash flows on acquisition	
Transaction costs of the acquisition (included in cash flows from operating activities)	(0.1)
Net cash acquired with the subsidiary (included in cash flows from investing activities)	1.0
Cash paid	(8.6)
Net cash flow on acquisition	(7.7)

The acquisition of Jones Food Company was settled in cash amounting to £8.6 million. Transaction costs of £0.1 million were expensed and are included in administrative expenses.

The goodwill of £4.7 million is primarily related to the skills and expertise of Jones Food Company's workforce and expectations of growth. Goodwill is allocated entirely to the Other segment and is not expected to be deductible for tax purposes.

From the date of acquisition, Jones Food Company contributed revenue of £0.1 million and a loss of £1.1 million to the Group's results. If the acquisition had occurred at the beginning of the period, the Group estimates that consolidated revenue would have been £0.1 million and consolidated loss before tax would have been £1.7 million.

The above numbers are provisional.



Notes to the Consolidated Financial Statements

Continued

3.1 Business Combinations Continued

Goodwill

The movements in the net carrying amount of goodwill are as follows:

	Goodwill £m
Cost	
At 3 December 2017 and 2 December 2018	–
Acquired through business combination	4.7
At 1 December 2019	4.7
Accumulated impairment	
At 3 December 2017 and 2 December 2018	–
Impairment loss	–
At 1 December 2019	–
Net book value	
At 2 December 2018	–
At 1 December 2019	4.7

For the purpose of annual impairment testing, goodwill has been allocated to the Other operating segment.

The acquisition of Jones Food Company occurred towards the end of the financial year. Management has reconsidered areas such as the skills and expertise of the workforce and expectations of future growth, and at the time of writing there were no indicators to suggest that the goodwill has been impaired.

Investments in Subsidiaries

Investments in subsidiaries held by the Company are carried at cost less accumulated impairment losses. Goodwill is the excess of consideration transferred over the fair value of the identifiable net assets acquired.

There was one (2018: zero) significant investment in new subsidiaries during the 52 weeks ended 1 December 2019, being that in Jones Food Company.

3.2 Other Intangible Assets

Accounting Policies

Intangible Assets

Intangible assets, other than goodwill, comprise internally generated assets relating mainly to computer software, and other intangible assets relating mainly to externally acquired computer software and assets, and the right to use land. These are carried at cost less accumulated amortisation and any recognised impairment loss. Other intangible assets such as externally acquired computer software and software licences are capitalised and amortised on a straight-line basis over their useful lives of three to fifteen years. Costs relating to the development of computer software for internal use are capitalised once all the development phase recognition criteria of IAS 38 "Intangible Assets" are met. When the software is available for its intended use, these costs are amortised in equal annual amounts over the estimated useful life of the software. Amortisation and impairment of computer software or licences are charged to administrative expenses in the period in which they arise.

Amortisation of intangible assets is calculated on a straight-line basis from the date on which they are brought into use, is charged to administrative expenses, and is calculated based on the useful lives indicated below:

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

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

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

Amortisation periods and methods are reviewed annually and adjusted if appropriate.

Cost Capitalisation

The cost of internally generated assets is capitalised as an intangible asset where it is determined by management's judgement that the ability to develop the assets is technically feasible, will be completed, and that the asset will generate economic benefit that outweighs its cost. This is in line with the recognition criteria as outlined in IAS 38 "Intangible Assets". Management determines whether the nature of the projects meets the recognition criteria to allow for the capitalisation of internal costs, which include the total cost of any external products or services and labour costs directly attributable to development. During the period management has considered whether costs in relation to the time spent on specific software projects can be capitalised. Time spent that was eligible for capitalisation included time which was intrinsic to the development of new assets, CFCs and General Merchandise Distribution Centres, and the enhancement and efficiency improvements of existing warehouse system capabilities to accommodate expanding capacity and scalable opportunities. Time has also been spent continuously implementing and integrating the functionality of the Ocado Smart Platform used by the Group's customers.

Other development costs that do not meet the above criteria are recognised as expenses as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Research expenditure is recognised as an expense as incurred. These are costs that form part of the intent of gaining new knowledge, which management assesses as not satisfying the capitalisation criteria per IAS 38 "Intangible Assets" as outlined above. Examples of research costs include, but are not limited to, the following: salaries and benefits of employees assessing and analysing future technologies and their likely viability, and professional fees such as marketing costs and the cost of third party consultancy.



3.2 Other Intangible Assets Continued

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

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

Of the internally generated assets capitalised, 25.2% (2018: 25.0%) relate to asset additions within property, plant and equipment.

Estimation of Useful Life

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

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

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

Where the right to use land has been granted, the period over which the amortisation is charged is the lower of the estimated useful economic life and the lease expiry date.

Impairment of Non-Financial Assets (Including Tangible Assets (Note 3.3))

Those non-financial assets which do not have indefinite useful lives are subject to an annual amortisation or depreciation charge. These assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may exceed its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell, and its value in use. Management makes an assessment based on the current usage level and condition of the assets and assesses whether the asset will continue to stay in use for the remainder of its useful life. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units).

Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period. When an impairment loss is subsequently reversed, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised immediately as income.

Given the Group's current operating structure, the lowest level at which cash flows can reasonably be assessed is at a group of asset level.

The Group prepares detailed forward projections which are constantly updated and refined. Based on these projections the Board does not consider that any further impairment of assets is required, other than that recognised in the Income Statement.

	Internally Generated Assets £m	Other Intangible Assets £m	Total Intangible Assets £m
Cost			
At 3 December 2017	160.3	27.9	188.2
Additions	–	6.8	6.8
Internal development costs capitalised	51.5	–	51.5
Disposals	(0.4)	–	(0.4)
At 2 December 2018	211.4	34.7	246.1
Additions	–	13.6	13.6
Internal development costs capitalised	70.2	–	70.2
Impairment of Andover CFC (see note 2.7)	(3.3)	–	(3.3)
At 1 December 2019	278.3	48.3	326.6
Accumulated amortisation			
At 3 December 2017	(68.8)	(7.0)	(75.8)
Charge for the period	(23.6)	(3.5)	(27.1)
Impairment	(0.4)	–	(0.4)
Disposals	0.4	–	0.4
At 2 December 2018	(92.4)	(10.5)	(102.9)
Charge for the period	(32.6)	(4.7)	(37.3)
Impairment	(0.6)	(1.2)	(1.8)
Impairment of Andover CFC (see note 2.7)	1.2	–	1.2
At 1 December 2019	(124.4)	(16.4)	(140.8)
Net book value			
At 2 December 2018	119.0	24.2	143.2
At 1 December 2019	153.9	31.9	185.8



Notes to the Consolidated Financial Statements

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3.2 Other Intangible Assets Continued

Included within intangible assets is capital work-in-progress for internally generated assets of £17.7 million (2018: £10.9 million) and capital work-in-progress for other intangible assets of £8.3 million (2018: £2.9 million).

The net book value of intangible assets held under lease liabilities is analysed below:

	1 December 2019 £m	2 December 2018 £m
Cost	14.4	14.4
Accumulated amortisation	(14.1)	(13.8)
Net book value	0.3	0.6

From 2019 leased assets are presented as a separate line item on the Consolidated Balance Sheet (see note 3.4). Refer to note 1.5 for details about the changes in accounting policy.

3.3 Property, Plant and Equipment

Accounting Policies

Property, Plant and Equipment

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

Property, plant and equipment represents 20.4% of the total asset base of the Group in 2019 (2018: 41.2%). The estimates and assumptions made to determine the carrying value of property, plant and equipment and related depreciation are important to the Group's financial position and performance. Management assesses the estimates and assumptions based on available external information and historical experience.

In determining the cost of property, plant and equipment, certain costs that relate to the intangible element of an asset are separately disclosed within intangible assets (see note 3.2). Management exercises judgement in reviewing each material addition of an asset and considers whether the intangible asset element can be used for other property, plant and equipment additions in the current or future periods. The Ocado Smart Platform has been identified as a standalone intangible asset, because it has been developed and used to deliver the Group's third and fourth CFCs in Andover and Erith, and will be used to provide part of the foundation software for future CFCs. Similarly, the restructuring of the software which manages CFC operations to increase modularity has been identified as a separate asset because it will improve software stability for both existing operational CFCs.

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

Freehold buildings and leasehold properties	30 years, or the lease term if shorter
Fixtures and fittings	5–10 years, or the lease term if shorter
Plant and machinery	3–20 years, or the lease term if shorter
Motor vehicles	2–7 years, or the lease term if shorter
Land is held at cost and not depreciated.	

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

Gains and losses on disposal are determined by comparing proceeds with the asset's carrying amount and are recognised within operating profit.

For more information on the Group's policy on capitalisation of borrowing costs, see note 4.1.

Estimation of Useful Life

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

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

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

For the Group's impairment policy on non-financial assets see note 3.2.



3.3 Property, Plant and Equipment Continued

	Land and Buildings £m	Fixtures, Fittings, Plant and Machinery £m	Motor Vehicles £m	Total £m
Cost				
At 3 December 2017	130.5	560.3	74.1	764.9
Additions	5.8	119.8	13.7	139.3
Internal development costs capitalised	–	17.2	–	17.2
Disposals	–	(0.3)	(5.3)	(5.6)
Transfer of non-current asset held for sale	(5.8)	–	–	(5.8)
At 2 December 2018	130.5	697.0	82.5	910.0
Adjustment for change in accounting policy (see note 1.5)	(32.4)	(211.1)	(69.8)	(313.3)
Additions	0.9	140.4	1.0	142.3
Internal development costs capitalised	–	23.6	–	23.6
Acquired on purchase of Jones Food Company Limited	0.6	4.8	–	5.4
Impairment on Andover CFC (see note 2.7)	(32.3)	(82.8)	–	(115.1)
Disposals	–	(2.6)	(2.7)	(5.3)
At 1 December 2019	67.3	569.3	11.0	647.6
Accumulated depreciation				
At 3 December 2017	(25.2)	(237.9)	(33.6)	(296.7)
Charge for the period	(4.2)	(45.2)	(13.9)	(63.3)
Impairment	–	(0.5)	–	(0.5)
Disposals	–	0.3	5.3	5.6
Transfer of non-current asset held for sale	1.6	–	–	1.6
At 2 December 2018	(27.8)	(283.3)	(42.2)	(353.3)
Adjustment for change in accounting policy (see note 1.5)	23.2	143.2	32.8	199.2
Charge for the period	(2.8)	(41.6)	(1.6)	(46.0)
Impairment	–	(0.6)	–	(0.6)
Impairment of Andover CFC (see note 2.7)	2.6	15.6	–	18.2
Disposals	–	0.8	2.7	3.5
At 1 December 2019	(4.8)	(165.9)	(8.3)	(179.0)
Net book value				
At 2 December 2018	102.7	413.7	40.3	556.7
At 1 December 2019	62.5	403.4	2.7	468.6

Included within property, plant and equipment is capital work-in-progress for land and buildings of £0.1 million (2018: £0.1 million) and capital work-in-progress for fixtures, fittings, plant and machinery of £115.1 million (2018: £45.8 million).

The net book value of property, plant and equipment held under finance leases is set out below:

	Land and Buildings £m	Fixtures, Fittings, Plant and Machinery £m	Motor Vehicles £m	Total £m
At 2 December 2018				
Cost	32.4	211.1	69.8	313.3
Accumulated depreciation and impairment	(23.2)	(143.2)	(32.8)	(199.2)
Net book value	9.2	67.9	37.0	114.1
At 1 December 2019				
Cost	–	–	–	–
Accumulated depreciation and impairment	–	–	–	–
Net book value	–	–	–	–

From 2019 leased assets are presented as a separate line item on the Consolidated Balance Sheet (see note 3.4). Refer to note 1.5 for details about the changes in accounting policy.



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3.4 Right-of-Use Assets

Accounting Policies

Right-of-Use Assets

In the previous period, the Group only recognised lease assets and lease liabilities in relation to leases that were classified as “finance leases” under IAS 17 “Leases”. The assets were presented in property, plant and equipment and the liabilities as part of the Group’s borrowings. For adjustments recognised on adoption of IFRS 16 on 3 December 2018, please refer to note 1.5.

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

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

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

	Land and Buildings £m	Fixtures, Fittings, Plant and Machinery £m	Motor Vehicles £m	Total £m
Cost				
At 3 December 2017 and 2 December 2018	–	–	–	–
Reclassified from property, plant and equipment	32.4	211.1	69.8	313.3
Recognised on adoption of IFRS 16	268.5	3.0	4.4	275.9
At 3 December 2018	300.9	214.1	74.2	589.2
Additions	8.9	–	20.4	29.3
Disposals	–	(0.2)	(3.8)	(4.0)
At 1 December 2019	309.8	213.9	90.8	614.5
Accumulated depreciation				
At 3 December 2017 and 2 December 2018	–	–	–	–
Reclassified from property, plant and equipment at 3 December 2018	(23.2)	(143.2)	(32.8)	(199.2)
Charge for the period	(19.4)	(15.6)	(15.4)	(50.4)
Disposals	–	0.2	3.7	3.9
At 1 December 2019	(42.6)	(158.6)	(44.5)	(245.7)
Net book value				
At 2 December 2018	–	–	–	–
At 1 December 2019	267.2	55.3	46.3	368.8

3.5 Financial Assets

Accounting Policies

Financial Assets

Financial assets comprise unlisted equity investments, prepaid fees in relation to financing activities, contributions towards dilapidations costs and contingent consideration.

Unlisted equity investments have been designated as at fair value through other comprehensive income (“FVTOCI”) because they represent strategic investments which the Group intends to hold for the long term. In 2018 these investments were classified as available-for-sale (see note 1.5).

Prepaid fees in relation to financing activities are recognised when incurred. The prepaid fees are amortised in proportion to the utilisation of the underlying facility. Amortisation commenced when the underlying facility was first utilised through to the earlier of the expected refinancing date or end of the term. Any residual of the prepaid fee which has not been amortised when the facility is refinanced or repaid will be charged immediately to the Consolidated Income Statement.

	1 December 2019 £m	2 December 2018 £m
Unlisted equity investments ⁽¹⁾	6.8	0.4
Prepaid financing fees	2.8	2.2
Contributions towards dilapidation costs	1.4	1.5
Contingent consideration (see note 2.8)	169.1	–
Financial assets	180.1	4.1
Disclosed as:		
Current	2.8	–
Non-current	177.3	4.1
	180.1	4.1

(1) These investments were classified as available-for-sale in 2018, see note 1.5.



3.5 Financial Assets Continued

Investments

The investments are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in other reserves. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments; instead it will be transferred to retained earnings. Dividends are recognised as other income in profit or loss.

Unlisted equity investments include a 25.0% interest in Paneltex Limited ("Paneltex"), a company incorporated in the United Kingdom, which has not been treated as an associated undertaking since the Group does not have significant influence over the company. In arriving at this decision, the Board has reviewed the conditions set out in IAS 28 "Investments in Associates and Joint Ventures" and concluded that despite the size of its holding it is unable to participate in the financial and operating policy decisions of Paneltex due to the position of the majority shareholder as Executive Managing Director. The relationship between the Group and the company is at arm's length. The fair value of the investment is £5.2 million (2018: classified as held-for-sale and measured at cost of £0.4 million).

During the current period the Group acquired a 5.9% interest in Inkbit Corporation, a company incorporated in Delaware, United States of America, which has been recognised as an unlisted equity investment and designated as at FVTOCI. The fair value of the investment is £1.6 million (2018: £nil).

Prepaid Financing Fees

The prepaid financing fees relate to financing facilities entered into in 2016. The non-current portion relates to amounts capitalised which will not be amortised to the Consolidated Income Statement within the next 12 months.

Contributions towards Dilapidations

Contributions towards dilapidations are due from the former tenant of two properties whose leases the Group took over in 2017 and will be utilised when dilapidation costs are incurred at the ends of the leases.

Contingent Consideration

As part of the creation of the joint venture with M&S, contingent consideration has been agreed. There will be an additional cash payment of up to £187.5 million if certain financial and operational conditions are satisfied in the five-year period after completion. At 1 December 2019 the fair value of the contingent consideration was estimated to be £163.5 million. Gains and losses due to changes in the fair value of the consideration are recognised directly in retained earnings in accordance with the accounting treatment of the gain on disposal.

Furthermore, as specified in the "earn-out" clause in the sale agreement of Fabled, additional cash consideration will be receivable based on sales in each of the four years ending January 2021–2024. At 1 December 2019 the fair value of the consideration was estimated to be £5.6 million. Gains and losses due to changes in the fair value of the consideration are recognised in the Consolidated Income Statement. In January 2020 £2.9 million was received by the Group as an initial payment of the consideration.

3.6 Investment in Joint Ventures

Accounting Policies

The Group has assessed the nature of its joint arrangements with MHE JVCo Limited and Infinite Acres Holding B.V. under IFRS 11 "Joint Arrangements" and determined both to be joint ventures.

The Group's share of the results of joint ventures is included in the Consolidated Income Statement and is accounted for using the equity method of accounting. Investments in joint ventures are carried on the Consolidated Balance Sheet at cost plus post-acquisition changes in the Group's share of the net assets of the entity, less any impairment in value. On transfer of assets to joint ventures, the Group recognises only its share of any profits or losses, namely that proportion sold outside the Group.

If the Group's share of losses in a joint venture equals or exceeds its investment in the joint venture, the Group does not recognise further losses, unless it has incurred obligations to do so or made payments on behalf of the joint venture.

Unrealised gains arising from transactions with joint ventures are eliminated to the extent of the Group's interest in the entity.

Investment in Joint Ventures

During the current period the Group acquired a 33.3% interest in Infinite Acres Holding B.V., a private company incorporated in the Netherlands.

Name of Entity	Place of Business/ Country of Incorporation	Principal Activity	% of Ownership Interest as at 1 December 2019 %	% of Ownership Interest as at 2 December 2018 %	Carrying Amount as at 1 December 2019 £m	Carrying Amount as at 2 December 2018 £m
			2019 %	2018 %	2019 £m	2018 £m
MHE JVCo Limited	United Kingdom	Leasing assets	50.0	50.0	37.6	52.2
Infinite Acres Holding B.V.	Netherlands	Design and construction of vertical farms	33.3	–	8.2	–
Total joint ventures					45.8	52.2



Notes to the Consolidated Financial Statements

Continued

3.6 Investment in Joint Ventures Continued

The tables below provide summarised financial information of the Group's joint ventures. The information disclosed reconciles the amounts presented in the financial statements of the relevant joint ventures with the Group's share of those amounts.

	MHE JVCo Limited		Infinite Acres Holding B.V.	
	1 December 2019 £m	2 December 2018 £m	1 December 2019 £m	2 December 2018 £m
Non-current assets	57.6	73.4	3.1	-
Current assets				
- Cash and cash equivalents	1.5	1.2	1.1	-
- Other current assets	17.0	35.4	0.2	-
Current liabilities				
- Financial liabilities (excluding trade and other payables)	-	-	-	-
- Other current liabilities	(0.3)	(4.8)	(1.1)	-
Non-current liabilities				
- Financial liabilities (excluding trade and other payables)	-	-	-	-
- Other non-current liabilities	-	-	-	-
Net assets	75.8	105.2	3.3	-
Group's share of net assets	37.9	52.6	1.1	-
Adjustment for specific allocations among investors	(0.3)	(0.4)	-	-
Goodwill	-	-	6.6	-
Legal costs capitalised on acquisition	-	-	0.5	-
Carrying amount	37.6	52.2	8.2	-

	MHE JVCo Limited		Infinite Acres Holding B.V.	
	52 Weeks Ended 1 December 2019 £m	52 Weeks Ended 2 December 2018 £m	10 Weeks Ended 1 December 2019 £m	52 Weeks Ended 2 December 2018 £m
Revenue	-	-	-	-
Cost of sales	-	-	-	-
Gross profit	-	-	-	-
Administrative expenses	-	-	(0.3)	-
Depreciation and amortisation	(1.6)	(2.0)	(0.1)	-
Interest income	3.7	4.4	-	-
Income tax expense	-	-	-	-
Profit and total comprehensive income for the period	2.1	2.4	(0.4)	-
Group's share of total comprehensive income	1.0	1.2	(0.1)	-
Foreign exchange difference recognised in other comprehensive income	-	-	(0.5)	-
Dividends received from joint ventures	15.6	-	-	-

3.7 Investment in Associate

Accounting Policies

The Group's share of the results of its associate is included in the Consolidated Income Statement and is accounted for using the equity method of accounting. Investments in associates are carried on the Consolidated Balance Sheet at cost plus post-acquisition changes in the Group's share of the net assets of the entity, less any impairment in value. On transfer of assets to associates, the Group recognises only its share of any profits or losses, namely that proportion sold outside the Group.

If the Group's share of losses in an associate equals or exceeds its investment in the associate, the Group does not recognise further losses, unless it has incurred obligations to do so or made payments on behalf of the associate.

Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity.

Investment in Associate

During the current period the Group acquired a 20.8% interest in Karakuri Limited, which is a robotics start-up. Karakuri is a private company incorporated in the United Kingdom and registered at 14 Amherst Avenue, London, England, W13 8NQ. Its principal place of business is Unit 2, 55a Yeldham Road, London, W6 8JF, United Kingdom.

The carrying amount of the Group's investment is £4.7 million (2018: £nil). Karakuri made a loss after tax of £0.7 million for the period from the date of the Group's acquisition to 1 December 2019, of which £0.2 million is attributable to the Group.



3.8 Non-Current Asset Held for Sale

Accounting Policies

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-Current Asset Held for Sale

The non-current asset held for sale of £4.2 million (2018: £4.2 million) represents the carrying value of a property in the United Kingdom, previously used in the Group's distribution network, which the Group is in the process of selling.

The completion of the sale has been delayed by circumstances beyond the Group's control but negotiations are well advanced, and the Group remains committed to the sale which is expected to complete in the first quarter of 2020. Accordingly, the asset has continued to be classified as held for sale. The proceeds of disposal are expected to exceed the book value and accordingly, no gain or loss was recognised on the classification of the property as held for sale.

3.9 Inventories

Accounting Policies

Inventories comprise goods held for resale, fuel and other consumable goods. Inventories are valued at the lower of cost and net realisable value as using the first-in-first-out basis 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 Group has a mix of grocery and general merchandise 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.

	1 December 2019 £m	2 December 2018 £m
Goods for resale	50.6	55.3
Consumables	1.7	1.2
	52.3	56.5

The provision for slow-moving, obsolete and defective stock decreased by £0.6 million from the prior period (2018: £0.6 million increase) and the corresponding income has been recognised in the Consolidated Income Statement.

3.10 Trade and Other Receivables

Accounting Policies

Trade and Other Receivables

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

Provision for Impairment of Trade Receivables

The Group elected to apply the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. To measure expected credit losses on a collective basis, trade receivables are grouped based on similar credit risk and ageing.

The expected loss rates are based on the Group's historical credit losses, adjusted for reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Group also calculated the provision that would be required under the incurred loss model of the old standard (IAS 39) and found there to be an immaterial difference between it and that required under IFRS 9. It was decided to continue applying the incurred loss model since this gives a higher provision, and management believes it to be more prudent. The prior period comparative is also reported under IAS 39.



Notes to the Consolidated Financial Statements

Continued

3.10 Trade and Other Receivables Continued

For a reconciliation of the provisions at the end of the current and prior periods, see note 4.9.

	1 December 2019 £m	2 December 2018 £m
Trade receivables	69.7	53.9
Less: provision for impairment of trade receivables	(2.2)	(1.5)
Net trade receivables	67.5	52.4
Other receivables	32.9	10.0
Prepayments	26.0	12.9
Accrued income	23.6	29.4
	150.0	104.7

Included within trade receivables is a balance of £nil (2018: £3.3 million) owed by MHE JVCo. £12.3 million (2018: £8.6 million) of trade receivables relates to contract balances outstanding for Solutions contracts. See note 2.3 for more detail.

Included in trade receivables is £43.1 million (2018: £29.9 million) due from suppliers in relation to commercial and media income. As at 9 January 2020 £26.0 million has been received. Included in accrued income is £8.0 million (2018: £8.4 million) to be invoiced to suppliers in relation to supplier-funded promotional activity and £10.8 million (2018: £10.8 million) to be invoiced to suppliers in relation to volume-related rebate amounts. As at 9 January 2020 £2.6 million of accrued income has been invoiced.

Also included in accrued income is £1.1 million (2018: £3.8 million) relating to the Group's right to consideration for work completed but not billed at the reporting date on Solutions contracts.

3.11 Cash and Cash Equivalents

Accounting Policies

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 Consolidated 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.

	1 December 2019 £m	2 December 2018 £m
Cash at bank and in hand	750.6	410.8

£2.9 million (2018: £2.5 million) of the Group's cash and cash equivalents is held by the Group's captive insurance company to maintain its solvency requirements. Included in cash and cash equivalents are credit card payments of £27.6 million (2018: £28.2 million) received within ten days. A further £2.4 million (2018: £1.2 million) is held by the Trustee of the Group's Employee Benefit Trust in relation to the Ocado Group Sharesave Scheme for employees in Poland. Therefore, these funds are restricted and are not available to circulate within the Group on demand.

3.12 Trade and Other Payables

Accounting Policies

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

	1 December 2019 £m	2 December 2018 £m
Trade payables	120.9	133.4
Taxation and social security	10.2	9.9
Accruals and other payables	132.6	135.2
Deferred insurance income	71.3	–
Other deferred income	14.6	12.5
	349.6	291.0

Deferred income includes the value of delivery income received under the Ocado Smart Pass scheme allocated to future periods, lease incentives and media income from suppliers which relate to future periods. It also includes a portion of insurance reimbursements received relating to the Andover CFC (see note 2.7). This will be released to profit or loss in the future as the rebuilding costs of the CFC and further business interruption costs are incurred.



3.13 Provisions

Accounting Policies

Provisions are recognised in line with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”. Provisions can be distinguished from other types of liability by considering the events that give rise to the obligation and the degree of uncertainty as to the amount or timing of the liability. These are recognised on the Consolidated Balance Sheet when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the amount can be estimated reliably.

The amounts recognised as a provision are management’s best estimates of the expenditure required to settle present obligations as at the Consolidated Balance Sheet date. The outcome depends on future events, which are by their nature uncertain. Any difference between expectations and the actual future liability will be accounted for in the period when this is determined. In assessing the likely outcome, management bases its assessment on historical experience and other factors that are believed to be reasonable in the circumstances.

Insurance Claims

Provisions for insurance claims relate to potential motor insurance claims and potential public liability claims where accidents have occurred but a claim has yet to be made. The provision is made based on estimates provided to Ocado by the third party manager of the Ocado Cell in Atlas Insurance PCC Limited (the “Ocado Cell”).

Dilapidations

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

Employee Incentive Schemes

Provisions for employee incentive schemes relate to HMRC unapproved equity-settled schemes and the Cash-Based Long-Term Incentive Plan (“Cash LTIP”). For all unapproved schemes and the Cash LTIP, the Group is liable to pay employer’s NIC upon allotment of the share awards.

Unapproved schemes are the Long-Term Incentive Plan (“LTIP”), the Growth Incentive Plan (“GIP”), the Value Creation Plan (“VCP”), the Ocado Technology award, the Long-Term Operating Plan and Executive Share Ownership Scheme (“ESOS”). For more details on these schemes, refer to note 4.11.

In 2014, the Group established the Cash LTIP in order to incentivise selected high performing employees of the Company. At the end of the three-year vesting period, employees will be paid a cash amount equal to the notional number of awards at the prevailing share price, adjusted for the achievement of the performance conditions.

Insurance Reimbursement

In February 2019, a fire destroyed the Andover CFC, including the building, machinery and all inventory held on site. Under the terms of the lease the Group has an obligation to restore the site, but the costs of reconstruction are covered under the Group’s insurance policy. Therefore, management has recognised the future insurance reimbursement as an asset on the face of the Consolidated Balance Sheet, and a corresponding provision representing the obligation to reinstate the building.

Provisions

	Insurance Claims £m	Dilapidations £m	Employee Incentive Schemes £m	Insurance Reimburse- ment £m	Total £m
As at 3 December 2017	0.5	6.2	3.4	–	10.1
Charged/(credited) to the Consolidated Income Statement:	–	–	–	–	–
– Additional provision	0.2	0.8	7.2	–	8.2
– Unused amounts reversed	(0.1)	–	(0.2)	–	(0.3)
Used during the period	(0.3)	(0.1)	(0.5)	–	(0.9)
As at 2 December 2018	0.3	6.9	9.9	–	17.1
Recognised on adoption of IFRS 16 at 3 December 2018	–	3.2	–	–	3.2
Charged/(credited) to the Consolidated Income Statement:					
– Additional provision	0.5	3.4	11.8	–	15.7
– Unused amounts reversed	(0.2)	(0.2)	(0.5)	–	(0.9)
– Unwinding of discount	–	0.3	–	–	0.3
Used during the period	–	(0.1)	(16.0)	–	(16.1)
Recognition of insurance reimbursement asset	–	–	–	49.2	49.2
As at 1 December 2019	0.6	13.5	5.2	49.2	68.5

Analysis of total provisions as at 2 December 2018

	Insurance Claims £m	Dilapidations £m	Employee Incentive Schemes £m	Insurance Reimburse- ment £m	Total £m
Current	0.1	0.6	7.6	–	8.3
Non-current	0.2	6.3	2.3	–	8.8
	0.3	6.9	9.9	–	17.1



Notes to the Consolidated Financial Statements

Continued

3.13 Provisions Continued

Analysis of total provisions as at 1 December 2019

	Insurance Claims £m	Dilapidations £m	Employee Incentive Schemes £m	Insurance Reimburse- ment Provision £m	Total £m
Current	0.2	–	4.6	49.2	54.0
Non-current	0.4	13.5	0.6	–	14.5
	0.6	13.5	5.2	49.2	68.5

Insurance Claims

The Ocado Cell uses statistical information built up over several years to estimate, as accurately as possible, the future outcome of the total claims value incurred but not reported as at the Balance Sheet date. In practice the Ocado Cell receives newly reported claims after the end of the underwriting period that must be allocated to the period of loss (i.e. the underwriting period of occurrence). The calculation of this provision involves estimating a number of variables, principally the level of claims which may be received and the level of any compensation which may be payable. Uncertainty associated with these factors may result in the ultimate liability being different from the reported provision. Although it is expected that £0.2 million of claims will be settled within 12 months of the Balance Sheet date, the exact timing of utilisation of the provision is uncertain.

Dilapidations

The dilapidations provision is based on the future expected repair costs required to restore the Group's leased buildings and vehicles to their fair condition at the end of their respective lease terms.

The Hatfield CFC lease expires in 2032, the Dordon CFC lease expires in 2038, the Andover CFC lease expires in 2092, the Erith CFC lease expires in 2046, the GMDC leases expire between 2027 and 2033, and the head office leases expire between 2022 and 2029, with leases for the spokes expiring up to 2068. Contractual amounts are due to be incurred at the end of the respective lease terms.

Leases for vehicles run for an average of five years, with the contractual obligation per vehicle payable at the end of the lease term. If a non-contractual option to extend individual leases for a further six months is exercised by the Group, the contractual obligation remains the same but is deferred by six months.

Employee Incentive Schemes

The provision consists of the Cash LTIP and employer's NIC on HMRC unapproved equity-settled schemes.

The Cash LTIP provision represents the expected cash payments to participants upon vesting of the awards. It has been calculated using various assumptions regarding liquidity, participants' retention and achievability of the performance conditions, and valued with reference to the period end share price. If at any point following initial valuation any of these assumptions are revised, the charge will need to be amended accordingly. In addition to the base cost, since this is a cash benefit, the Group will be liable to pay employer's NIC on the value of the cash award on vesting, which is included in the above employer's NIC provision.

To calculate the employer's NIC provision, the applicable employer's NIC rate is applied to the number of share awards which are expected to vest, valued with reference to the period end share price. The number of share awards expected to vest is dependent on various assumptions which are determined by management; namely participants' retention rate, the expectation of meeting the performance criteria, if any, and the liquidity discount. All assumptions are supported by historical trends and internal financial forecasts, where appropriate.

For the GIP and the VCP, external valuations were carried out to determine the fair value of the awards granted (see notes 4.11 (e) and (g)).

If at any point during the life of each share award, any non-market conditions are subject to change, such as the retention rate or the likelihood of the performance condition being met, the number of share awards likely to vest will need to be recalculated which will cause the value of the employer's NIC provision to change accordingly.

Once the share awards under each of the schemes have vested, the provision will be utilised when they are allocated to participants. Vesting will occur between 2021 and 2023.

3.14 Contingent Liabilities

Obligations under Solutions Contracts

In the construction phases of its Solutions contracts, the Group agrees to reach key milestones by agreed points in time. If it fails to reach these milestones, financial penalties may be incurred. These potential financial penalties could have a material impact on the Group's financial statements, and therefore are considered contingent liabilities.

At the end of the period Management undertook a review of the agreed milestones within its Solutions contracts, and concluded that the possibility of not reaching them was remote.

Claims and Litigation

The Group also has contingent liabilities in respect of legal claims arising in the ordinary course of business, all of which the Group expects will either be covered by its insurances or will not have a material effect on the Group's financial statements.



Section 4 – Capital Structure and Financing Costs

4.1 Leases and Borrowings

Accounting Policies

Borrowings

Interest bearing bank loans and overdrafts are initially recorded at fair value, net of transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being capitalised to qualifying assets or recognised in the Consolidated Income Statement over the period of the borrowings on the effective interest rate basis.

Leases

As described in note 1.5, the Group has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated. This means comparative information is still reported under IAS 17.

Accounting Policy Applicable from 3 December 2018

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

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

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

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

Accounting Policy Applicable before 3 December 2018

Leased Assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leases are classified as operating leases. For the Hatfield CFC, the land and building elements are accounted for separately after determining the appropriate lease classification.

The Group follows the guidance of IAS 17 "Leases" to determine the classification of leases as operating leases versus finance leases. The classification of a lease as a finance lease as opposed to an operating lease will increase EBITDA^④ as the charge made by the lessor will pass through finance charges and depreciation will be charged on the capitalised asset. Retained earnings may also be affected depending on the relative size of the amounts apportioned to capital repayments and depreciation. IAS 17 "Leases" requires the Group to consider splitting property leases into their component parts (i.e. land and building elements). As only the building elements could be considered a finance lease, management must make a judgement, based on advice from suitable experts, as to the relative value of the land and buildings.

Finance Leases

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

Operating Leases

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

Sale and Leaseback

A sale and leaseback transaction is one where the Group sells an asset and immediately reacquires the use of the asset by entering into a lease with the buyer.

The leaseback transaction is classified as a finance lease when the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leasebacks are classified as operating leases.

For sale and finance leasebacks, any profit from the sale is deferred and amortised over the lease term. For sale and operating leasebacks, the assets are expected to be sold at fair value, and accordingly the profit or loss from the sale is recognised immediately in the Consolidated Income Statement.

Lease Incentives

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

^④ See Alternative Performance Measures on pages 227 and 228.



Notes to the Consolidated Financial Statements

Continued

4.2 Borrowings and Lease Liabilities

	Notes	1 December 2019 £m	2 December 2018 £m
Current liabilities			
Lease liabilities	4.3	50.1	22.9
		50.1	22.9
Non-current liabilities			
Borrowings		219.7	244.3
Lease liabilities	4.3	338.4	93.4
		558.1	337.7
Total borrowings and lease liabilities		608.2	360.6

Borrowings

	Less Than One Year £m	Between One Year and Two Years £m	Between Two Years and Five Years £m	Over Five Years £m	Total £m
At 2 December 2018					
Senior secured notes	–	–	–	244.3	244.3
Total borrowings	–	–	–	244.3	244.3
At 1 December 2019					
Senior secured notes	–	–	219.5	–	219.5
Chattel mortgages	–	–	0.2	–	0.2
Total borrowings	–	–	219.7	–	219.7

The loans outstanding at 2 December 2018 can be analysed as follows:

Principal Amount £m	Inception	Security Held	Current Interest Rate	Instalment Frequency	Final Payment Due	Carrying Amount as at 2 December 2018 £m
250.0	June 2017	Collateral	4.0%	Biannual	June 2024	244.3

The loans outstanding at 1 December 2019 can be analysed as follows:

Principal Amount £m	Inception	Security Held	Current Interest Rate	Instalment Frequency	Final Payment Due	Carrying Amount as at 1 December 2019 £m
225.0	June 2017	Collateral	4.0%	Biannual	June 2024	219.5
0.3	January 2019	Collateral	8.8%	Biannual	January 2023	0.2

In the current period, the unsecured £100.0 million revolving facility expiring in 2022 has not been utilised.

Senior secured notes were issued in June 2017 raising £250.0 million; this is shown net of transaction fees. The senior secured notes are secured by charges over the issued share capital of the subsidiary undertakings which acted as guarantors for the notes. During the current period £25.0 million was repaid, incurring early repayment fees of £0.8 million.

The Group reviews its financing arrangements regularly. The revolving facility and the senior secured notes contain typical restrictions concerning dividend payments and additional debt and leases.

4.3 Lease Liabilities

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

In the previous period, the Group only recognised lease assets and lease liabilities in relation to leases that were classified as "finance leases" under IAS 17 "Leases". The assets were presented in property, plant and equipment and the liabilities as part of the Group's borrowings. For adjustments recognised on adoption of IFRS 16 on 3 December 2018, please refer to note 1.5.

	1 December 2019 £m	2 December 2018 £m
Lease liabilities due:		
Within one year	50.1	22.9
Between one and two years	42.9	26.7
Between two and five years	90.1	60.9
After five years	205.4	5.8
Total lease liabilities	388.5	116.3



4.3 Lease Liabilities Continued

External obligations under lease liabilities are £320.4 million (2018: £41.8 million) excluding £64.0 million (2018: £74.5 million) payable to MHE JVCo, a joint venture company.

	1 December 2019 £m	2 December 2018 £m
Minimum lease payments due:		
Within one year	54.8	35.8
Between one and two years	46.0	30.6
Between two and five years	93.1	65.7
After five years	205.4	12.9
	399.3	145.0
Less: future finance charges	(10.8)	(28.7)
Present value of lease liabilities	388.5	116.3
Disclosed as:		
Current	50.1	22.9
Non-current	338.4	93.4
	388.5	116.3

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

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

	52 Weeks Ended 1 December 2019 £m
Short-term leases	0.6
Leases of low-value assets	0.1
	0.7

At 1 December 2019 the Group was committed to £0.2 for short-term leases.

Total cash outflow for leases for the 52-week period ended 1 December 2019 was £40.2 million.

4.4 Reconciliation of Liabilities Arising from Financing Activities

	Notes	2 December 2018 £m	Non-cash changes				1 December 2019 £m
			Cash flows £m	Remeasurement for IFRS 16 £m	Additions £m	Unwinding of Interest £m	
Borrowings	4.2	244.3	(25.0)	–	–	0.4	219.7
Lease liabilities	4.2	116.3	(40.2)	283.1	29.3	–	388.5
		360.6	(65.2)	283.1	29.3	0.4	608.2

4.5 Analysis of Net Cash®

Net Cash®

	Notes	1 December 2019 £m	2 December 2018 £m
Current assets			
Cash and cash equivalents	3.11	750.6	410.8
Current liabilities			
Lease liabilities	4.2	(50.1)	(22.9)
Non-current liabilities			
Borrowings	4.2	(219.7)	(244.3)
Lease liabilities	4.2	(338.4)	(93.4)
		(558.1)	(337.7)
Total net cash®		142.4	50.2

The net cash® position is £206.4 million (2018: £124.7 million net cash®), excluding lease liability obligations of £64.0 million (2018: £74.5 million) payable to MHE JVCo, a joint venture company. £5.3 million (2018: £3.7 million) of the Group's cash and cash equivalents is considered to be restricted and is not available to circulate within the Group on demand. For more information see note 3.11.

® See Alternative Performance Measures on pages 227 and 228.



Notes to the Consolidated Financial Statements

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4.5 Analysis of Net Cash® Continued

Reconciliation of Net Cash Flow to Movement in Net Cash®

	1 December 2019 £m	2 December 2018 £m
Net increase in cash and cash equivalents	339.8	260.8
Net (increase)/decrease in debt and lease financing	57.6	31.0
Non-cash movements:		
- Assets acquired under leases	(305.2)	(13.6)
Movement in net cash® in the period	92.2	278.2
Opening net cash®	50.2	(228.0)
Closing net cash®	142.4	50.2

4.6 Finance Income and Costs

Accounting Policies

Borrowing Costs

Borrowing costs which are directly attributable to the acquisition or construction of qualifying assets are capitalisable. They are defined as the borrowing costs that would have been avoided if the expenditure on the qualifying asset had not been made. All other borrowing costs which are not capitalised are charged to finance costs, using the effective interest rate method.

Borrowing costs capitalised during the period are £0.1 million (2018: £2.8 million). The rate used to determine the amount of finance costs capitalised during the period is 1.0% (2018: 4%).

Finance Income and Costs

Interest income is accounted for on an accruals basis using the effective interest method. Finance costs comprise obligations on lease liabilities and borrowings. The interest expense on lease liabilities is recognised over the lease periods so as to produce constant periodic rates of interest on the remaining balances of the liabilities for each period. Interest expense on borrowings is recognised using the effective interest method.

	52 Weeks Ended 1 December 2019 £m	52 Weeks Ended 2 December 2018 £m
Interest on cash balances	3.3	2.2
Finance income	3.3	2.2
Borrowing costs:		
- Interest expense on lease liabilities	(20.6)	(6.5)
- Borrowings	(10.3)	(8.2)
Finance costs	(30.9)	(14.7)
Net finance costs	(27.6)	(12.5)

4.7 Derivative Financial Instruments

Accounting Policies

Derivative Financial Instruments

Derivative financial instruments are initially recognised at fair value on the contract date and are subsequently measured at their fair value at each Balance Sheet date. The method of recognising the resulting fair value gain or loss depends on whether or not the derivative is designated as a hedging instrument and on the nature of the item being hedged. At 1 December 2019 and at 2 December 2018, the Group's derivative financial instruments consisted of commodity swap contracts which are designated as cash flow hedges of highly probable transactions.

The Group documents at the inception of the hedge the relationship between hedging instruments and hedged items, the risk management objectives and strategy and its assessment of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

This assessment is performed retrospectively at the end of each financial reporting period. Movements on the hedging reserve within shareholders' equity are shown in the Consolidated Statement of Comprehensive Income. The full fair value of hedging derivatives is classified as current when the remaining maturity of the hedged item is less than 12 months.

Cash Flow Hedging

The Group uses commodity swap contracts to hedge the cost of future purchases of fuel to be used in the business. The cash flows are expected to occur within one year of the Balance Sheet date and hedges cover 50-80% of expected risk.

The effective portion of changes in the fair value of derivatives that are designated as cash flow hedging instruments and qualify for hedge accounting is recognised in other comprehensive income. Amounts accumulated through other comprehensive income are recycled in the Consolidated Income Statement in the periods in which the hedged items affect profit or loss. During the period all of the Group's cash flow hedges were effective and there is therefore no ineffective portion recognised in profit or loss.

® See Alternative Performance Measures on pages 227 and 228.



4.7 Derivative Financial Instruments Continued

Commodity Swap Contracts

The notional principal amounts of the outstanding commodity swap contracts at 1 December 2019 were £13.0 million (2018: £11.3 million). The hedged highly probable forecast transactions are expected to occur at various dates during the next 12 months. A cumulative net loss of £1.7 million (2018: £1.0 million net gain) has been recognised in the hedging reserve within other comprehensive income. These gains and losses are recognised in the Consolidated Income Statement in periods during which the hedged forecast transaction affects the Consolidated Income Statement.

	1 December 2019 £m	2 December 2018 £m
Commodity swap contracts:		
Derivative asset	-	0.1
Derivative liability	(0.5)	(0.5)
	(0.5)	(0.4)

4.8 Financial Instruments

Accounting Policies

The effect of the initial application of IFRS 9 on the Group's financial instruments is described in note 1.5. Due to the transition method chosen, comparative information has not been restated to reflect the new requirements.

Financial assets and financial liabilities are recognised on the Consolidated Balance Sheet when the Group becomes a party to the contractual provisions of the instrument.

The Group classifies its financial assets using the following categories:

- amortised cost;
- fair value through profit or loss ("FVTPL"); and
- fair value through other comprehensive income ("FVTOCI").

The classification depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

Financial liabilities are measured at amortised cost except for derivatives which are measured at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments). Classification depends on the purpose for which the liability was acquired.

Financial Liabilities and Equity Instruments

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 Group after deducting all of its liabilities.

Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount reported on the Consolidated Balance Sheet when there is a legally-enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Impairment of Financial Assets

Assets Carried at Amortised Cost

IFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses – the "expected credit loss (ECL) model". This replaces IAS 39's "incurred loss model".

The Group elected to apply the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables (see note 3.10.)

The Group also calculated the provision that would be required under the incurred loss model of the old standard (IAS 39) and found there to be an immaterial difference between it and that required under IFRS 9. It was decided to continue applying the incurred loss model since this gives a higher provision, and management believes it to be more prudent.

Financial Assets and Liabilities at Fair Value

Financial instruments carried at fair value on the Consolidated Balance Sheet comprise contingent consideration, unlisted equity investments and the derivative assets and liabilities – see note 2.8, note 3.5 and note 4.7. The Group uses the following hierarchy for determining and disclosing the fair value of these financial instruments:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly (level 2); and
- inputs for the assets or liabilities that are not based on observable market data (level 3).

The contingent consideration and unlisted equity investments are classified as level 3. The Group's derivative financial assets and financial liabilities other than the senior secured notes are all classified as level 2. The senior secured notes are classified as level 1.



Notes to the Consolidated Financial Statements

Continued

4.8 Financial Instruments Continued

Set out below is a comparison by category of carrying values and fair values of all financial instruments that are included in the financial statements:

	Notes	1 December 2019 Carrying Value £m	1 December 2019 Fair Value £m	2 December 2018 Carrying Value £m	2 December 2018 Fair Value £m
Financial assets					
Cash and cash equivalents	3.11	750.6	750.6	410.8	410.8
Trade receivables	3.10	67.5	67.5	52.4	52.4
Other receivables and accrued income	3.10	56.5	56.5	39.4	39.4
Financial assets	3.5	180.1	180.1	4.1	4.1
Derivative assets	4.7	–	–	0.1	0.1
Total financial assets		1,054.7	1,054.7	506.8	506.8
Financial liabilities					
Trade payables	3.12	(120.9)	(120.9)	(133.4)	(133.4)
Accruals and other payables	3.12	(132.6)	(132.6)	(135.2)	(135.2)
Senior secured notes	4.2	(219.5)	(231.3)	(244.3)	(238.6)
Other borrowings	4.2	(0.2)	(0.2)	–	–
Lease liabilities	4.3	(388.5)	(388.5)	(116.3)	(116.3)
Derivative liabilities	4.7	(0.5)	(0.5)	(0.5)	(0.5)
Total financial liabilities		(862.2)	(874.0)	(629.7)	(624.0)

The derivative assets and liabilities relate to forward commodity swap contracts.

The Group's non-current financial assets consist of contingent consideration, unlisted equity investments, prepaid financing fees and contributions towards dilapidation costs.

The fair values of cash and cash equivalents, receivables, payables and accruals of a maturity of less than one financial period are assumed to approximate to their carrying values but for completeness are included in this analysis.

The fair value of the senior secured notes is determined based on the quoted price in the active market. The carrying value in the table above is stated after deduction of issue costs of £5.4 million.

The fair values of all other financial assets and liabilities have been calculated by discounting the expected future cash flows at prevailing market interest rates.

The following table provides information about how the fair values of financial instruments categorised in level 3 are determined:

Description	Valuation Techniques and Key Inputs	Significant Unobservable Inputs	Sensitivity of the Fair Value Measurement to Input
Contingent consideration	Discounted cash flow. Expected cash inflows are estimated based on the terms of the share purchase agreements and the Group's expectations of future performance and meeting financial and operational targets	Discount rate of 8.00% Expected cash inflows of £229.2 million	An increase in the discount rate of 100 bps would decrease the fair value by £5.9 million. Management does not consider that the value of expected future cash inflows will change materially during the next 12 months.
Unlisted equity investments	Market comparison. The valuation model is based on market multiples derived from market research reports for industries comparable to the investee and the EBITDA [®] of the investee.	Market multiple	A change in the market multiple of 5.0% would decrease fair value by £0.3 million.

The consideration relating to the part-disposal of Ocado Retail valued at £163.5 million comprises three individual amounts, with three individual "triggers". Management considers it probable that these triggers will be met, and this has been reflected in the calculation of the fair value.

The consideration relating to the disposal of Fabled valued at £5.6 million is based on an "earn-out" agreement whereby the Group will receive sums in proportion to Fabled's future sales.

The Group has categorised its financial instruments as follows (the financial instrument classifications in the prior period are in accordance with IAS 39):

[®] See Alternative Performance Measures on pages 227 and 228.



4.8 Financial Instruments Continued

	Notes	Available-for-Sale £m	Loans and Receivables £m	Financial Liabilities at Amortised Cost £m	Financial Liabilities at Fair Value Through Profit and Loss £m	Total £m
At 2 December 2018						
Financial assets per the Consolidated Balance Sheet						
Cash and cash equivalents	3.11	–	410.8	–	–	410.8
Trade receivables	3.10	–	52.4	–	–	52.4
Other receivables and accrued income	3.10	–	39.4	–	–	39.4
Financial assets	3.5	0.4	3.7	–	–	4.1
Derivative assets	4.7	–	–	–	0.1	0.1
Total		0.4	506.3	–	0.1	506.8
Financial liabilities per the Consolidated Balance Sheet						
Trade payables	3.12	–	–	(133.4)	–	(133.4)
Accruals and other payables	3.12	–	–	(135.2)	–	(135.2)
Senior secured notes	4.2	–	–	(244.3)	–	(244.3)
Lease liabilities	4.3	–	–	(116.3)	–	(116.3)
Derivative liabilities	4.7	–	–	–	(0.5)	(0.5)
Total		–	–	(629.2)	(0.5)	(629.7)
At 1 December 2019						
Financial assets per the Consolidated Balance Sheet						
Cash and cash equivalents	3.11	750.6	–	–	–	750.6
Trade receivables	3.10	67.5	–	–	–	67.5
Other receivables and accrued income	3.10	56.5	–	–	–	56.5
Financial assets	3.5	4.2	6.8	169.1	180.1	
Total		878.8	6.8	169.1	169.1	1,054.7
Financial liabilities per the Consolidated Balance Sheet						
Trade payables	3.12	(120.9)	–	–	–	(120.9)
Accruals and other payables	3.12	(132.6)	–	–	–	(132.6)
Senior secured notes	4.2	(219.5)	–	–	–	(219.5)
Other borrowings	4.2	(0.2)	–	–	–	(0.2)
Lease liabilities	4.3	(388.5)	–	–	–	(388.5)
Derivative liabilities	4.7	–	–	(0.5)	–	(0.5)
Total		(861.7)	–	(0.5)	(0.5)	(862.2)



Notes to the Consolidated Financial Statements

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4.9 Financial Risk Management

Overview

The Group's financial instruments comprise trade and other receivables and payables, borrowings and lease liabilities, cash and cash equivalents, and derivatives. The main financial risks faced by the Group relate to the risk of default by counterparties following financial transactions, the availability of funds for the Group to meet its obligations as they fall due and fluctuations in interest and foreign exchange rates.

The management of these risks is set out below.

Credit Risk

The Group's exposures to credit risk arise from holdings of cash and cash equivalents, trade and other receivables (excluding prepayments) and derivative assets. The carrying value of these financial assets, as set out in note 4.8, represents the maximum credit exposure. No collateral is held as security against these assets.

Cash and Cash Equivalents

The Group's exposure to credit risk on cash and cash equivalents is managed by investing in banks and financial institutions with strong credit ratings and by regular review of counterparty risk.

Trade and Other Receivables

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 Group provides for doubtful receivables in respect of monies due from suppliers.

The Group has very low retail credit risk due to transactions being principally of a high volume, low value and short maturity. The Group has effective controls over this area. The Group has allowed for doubtful receivables in respect of consumer sales by reviewing the ageing profile and, based on prior experience, assessing the recoverability of overdue balances.

Movements in the provision for the impairment of trade and other receivables are as follows:

	Notes	1 December 2019 £m	2 December 2018 £m
At the beginning of the period	3.10	(1.5)	(2.6)
Provision for impairment of receivables		(2.1)	(1.2)
Uncollectable amounts written off		0.7	1.7
Recovery of amounts previously provided for		0.7	0.6
At the end of the period	3.10	(2.2)	(1.5)

The Group has adequate cash resources to manage the short-term working capital needs of the business. The unsecured £100 million revolving facility expiring 2022 had not been utilised as at 1 December 2019. Senior secured notes were issued in June 2017, raising £250 million. The Group regularly reviews its financing arrangements. For further details of the review please refer to the Group's Viability Statement on page 53.

The Group monitors its liquidity requirements to ensure it has sufficient cash to meet operational needs. For further details see note 4.12.

The table below splits the Group's financial liabilities into groupings based on the remaining period to the contractual maturity date at the period end. The amounts disclosed in the table are the carrying values and undiscounted contractual cash flows.

	Notes	Carrying Value £m	Contractual Cash Flows £m	1 Year or Less £m	1–2 Years £m	2–5 Years £m	More Than 5 Years £m
Financial liabilities							
Trade payables	3.12	(133.4)	(133.4)	(133.4)	–	–	–
Other payables	3.12	(135.2)	(135.2)	(135.2)	–	–	–
Senior secured notes	4.2	(244.3)	(310.0)	(10.0)	(10.0)	(30.0)	(260.0)
Lease liabilities	4.3	(116.3)	(145.0)	(35.8)	(30.6)	(65.7)	(12.9)
Derivative liabilities	4.7	(0.5)	(0.5)	(0.5)	–	–	–
2 December 2018		(629.7)	(724.1)	(314.9)	(40.6)	(95.7)	(272.9)
	Notes	Carrying Value £m	Contractual Cash Flows £m	1 Year or Less £m	1–2 Years £m	2–5 Years £m	More Than 5 Years £m
Financial liabilities							
Trade payables	3.12	(120.9)	(120.9)	(120.9)	–	–	–
Other payables	3.12	(132.6)	(132.6)	(132.6)	–	–	–
Senior secured notes	4.2	(219.5)	(270.0)	(9.0)	(9.0)	(252.0)	–
Other borrowings	4.2	(0.2)	(0.3)	(0.1)	(0.1)	(0.1)	–
Lease liabilities	4.3	(388.5)	(399.3)	(54.8)	(46.0)	(93.1)	(205.4)
Derivative liabilities	4.7	(0.5)	(0.5)	(0.5)	–	–	–
1 December 2019		(862.2)	(923.6)	(317.9)	(55.1)	(345.2)	(205.4)



4.9 Financial Risk Management Continued

Market Risk

Currency Risk

The Group has foreign currency exposure in relation to its foreign currency trade payables and a portion of its cash and cash equivalents.

Foreign currency trade payables arise principally on purchases of plant and equipment, primarily in relation to the Canadian dollar, euro, Polish złoty and US dollar.

Bank accounts are maintained in these foreign currencies in order to minimise the Group's exposure to fluctuations in the currency relating to current and future purchases of plant and equipment.

The Group's exposure to currency risk is based on the following amounts:

	1 December 2019 £m	2 December 2018 £m
Cash and cash equivalents – EUR	2.7	1.2
Cash and cash equivalents – PLN	5.1	2.9
Cash and cash equivalents – USD	3.3	2.9
Trade payables – CAD	(2.7)	–
Trade payables – EUR	(2.0)	(0.4)
Trade payables – PLN	(0.1)	(2.1)
Trade payables – USD	(1.3)	(1.2)
	5.0	3.3

The table below shows the Group's sensitivity to changes in foreign exchange rates on its financial instruments denominated in foreign currencies:

	1 December 2019		2 December 2018	
	Increase/ (Decrease) in Income £m	Increase/ (Decrease) in Equity £m	Increase/ (Decrease) in Income £m	Increase/ (Decrease) in Equity £m
10% appreciation of the above foreign currencies	0.5	–	0.3	–
10% depreciation of the above foreign currencies	(0.5)	–	(0.4)	–

The above analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the period. The analysis assumes that all other variables remain constant.

Interest Rate Risk

The Group is exposed to interest rate risk on its floating rate interest-bearing borrowings and floating rate cash and cash equivalents. The Group's interest rate risk policy seeks to minimise finance charges and volatility by structuring the interest rate profile into a diversified portfolio of fixed rate and floating rate financial assets and liabilities. Interest rate risk on floating rate interest-bearing borrowings is not significant.

At the Balance Sheet date, the interest rate profile of the Group's interest-bearing financial instruments was:

	1 December 2019 £m	2 December 2018 £m
Fixed rate instruments		
Financial assets	380.6	408.8
Financial liabilities	(608.2)	(360.6)
Variable rate instruments		
Financial assets	370.0	2.0
Financial liabilities	–	–

Sensitivity Analysis

An increase of 100 basis points (1.0%) in interest rates would affect equity and profit or loss by the amounts shown below. A rate of 100 basis points was assessed as being appropriate, considering the current short-term interest rate outlook. The calculation applies the increase to average floating rate interest-bearing borrowings and cash and cash equivalents existing during the period. This analysis assumes that all other variables remain constant and considers the effect on financial instruments with variable interest rates.

	1 December 2019 £m	2 December 2018 £m
Equity		
Result	–	–
Income	1.4	–
Gain	–	–



Notes to the Consolidated Financial Statements

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4.10 Share Capital and Reserves

Accounting Policy

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

Share Capital and Reserves

As at 1 December 2019, the number of ordinary shares available for issue under the Block Listing Facilities was 13,657,551 (2018: 10,014,711). These ordinary shares will only be issued and allotted when the shares under the relevant share incentive plan have vested or the share options under the Group's executive share ownership scheme and Sharesave schemes have been exercised. They are therefore not included in the total number of ordinary shares outstanding below.

The reclassification in the prior period is correcting both the accounting for the reacquisition of bad leaver JSOS interests in 2015 and the inception to date reclassification to retained earnings of gains on disposal of JSOS interests previously recognised in the share premium reserve.

The movements in the called up share capital and share premium accounts are set out below:

	Number of Ordinary Shares (Million)	Ordinary Shares £m	Share Premium ⁽¹⁾ £m
At 3 December 2017	630.7	12.6	261.3
Issue of ordinary shares	65.0	1.3	322.1
Allotted in respect of share option schemes	2.6	0.1	6.2
Reclassification between reserves	–	–	0.3
At 2 December 2018	698.3	14.0	589.9
Issue of ordinary shares	10.0	0.2	113.0
Allotted in respect of share option schemes	0.9	–	2.4
At 1 December 2019	709.2	14.2	705.3

(1) Historical losses of £2.9 million on the utilisation of treasury shares to satisfy vestings of Long-Term Incentive Plan awards have been reclassified to retained earnings, and reflected in the share premium balances at 3 December 2017 and 2 December 2018.

Included in the total number of ordinary shares outstanding above are 10,850,516 (2018: 6,438,706) ordinary shares held by the Group's Employee Benefit Trust (see note 4.11(b) and (g)). The ordinary shares held by the Trustee of the Group's Employee Benefit Trust pursuant to the JSOS, and the linked jointly-owned equity ("JOE") awards under the Value Creation Plan ("VCP") are treated as treasury shares on the Consolidated Balance Sheet in accordance with IAS 32 "Financial Instruments: Presentation". These ordinary shares have voting rights but these have been waived by the trustee (although the trustee may vote in respect of shares that have vested and remain in the trust). The number of allotted, called up and fully paid shares, excluding treasury shares, at the end of each period differs from that used in the basic loss per share calculation in note 2.9 as basic loss per share is calculated using the weighted average number of ordinary shares in issue during the period, excluding treasury shares.

The movements in reserves other than share premium are set out below:

	Notes	Treasury Shares Reserve £m	Reverse Acquisition Reserve £m	Fair Value Reserve £m	Hedging Reserve £m	Translation Reserve £m
At 3 December 2017		(48.0)	(116.2)	–	0.2	0.5
Disposal of treasury shares	4.10(a)	11.7	–	–	–	–
Transfer of shares to participants	4.10(a)	27.8	–	–	–	–
Reclassification between reserves	4.10(a)	(0.7)	–	–	–	–
Movement on derivative financial instruments	4.10(b)	–	–	–	1.0	–
Translation of foreign subsidiaries	4.10(b)	–	–	–	–	(0.3)
At 2 December 2018		(9.2)	(116.2)	–	1.2	0.2
IFRS 9: impact of change in accounting policy		–	–	2.0	–	–
Adjusted balance as at 2 December 2018		(9.2)	(116.2)	2.0	1.2	0.2
Issue of ordinary shares		(111.1)	–	–	–	–
Disposal of treasury shares on exercise by participants	4.10(a)	0.5	–	–	–	–
Disposal of unallocated treasury shares	4.10(a)	5.7	–	–	–	–
Transfer of treasury shares to participants	4.10(a)	0.8	–	–	–	–
Reclassification between reserves		(0.3)	–	–	–	–
Movement on derivative financial instruments	4.10(b)	–	–	–	(1.7)	–
Translation of foreign subsidiaries	4.10(b)	–	–	–	–	(0.6)
Gain on equity investments designated as at fair value through other comprehensive income	4.10(b)	–	–	2.8	–	–
Reclassification of equity of Jones Food Company	4.10(b)	–	–	0.1	–	–
At 1 December 2019		(113.6)	(116.2)	4.9	(0.5)	(0.4)

(a) Treasury Shares Reserve

This reserve arose when the Group issued equity share capital under its JSOS. In the current period the Group issued share capital relating to the linked jointly-owned equity ("JOE") awards under the Value Creation Plan ("VCP"). The shares under both plans are held in trust by the Trustee of the Group's Employee Benefit Trust. Treasury shares cease to be accounted for as such when they are sold outside the Group or the interest is transferred in full to the participant pursuant to the terms of the JSOS and VCP. Participant interests in unexercised shares held by participants are not included in the calculation of treasury shares. See note 4.11(b) for more information on the JSOS and 4.11(g) on the VCP.



4.10 Share Capital and Reserves Continued

(b) Other Reserves

The acquisition by the Company of the entire issued share capital in 2010 of Ocado Limited was accounted for as a reverse acquisition under IFRS 3 (revised). Consequently, the previously recognised book values and assets and liabilities have been retained and the consolidated financial information for the period to 1 December 2019 has been presented as if the Company had always been the parent company of the Group.

The fair value reserve comprises cumulative changes in the fair value of assets and liabilities.

The hedging reserve comprises cumulative gains and losses on movements in the Group's hedging arrangements (see note 4.7).

The translation reserve comprises cumulative foreign exchange differences on the translation of foreign subsidiaries.

4.11 Share Options and Other Equity Instruments

Accounting Policies

Employee Benefits

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

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

The cost of cash-settled transactions is measured with reference to the fair value of the liability, which is taken to be the closing price of the Company's shares. Until the liability is settled it is remeasured at the end of each reporting period and at the date of settlement, with any changes in the fair value being recognised in the Consolidated Income Statement for the period. For more details please refer to note 3.13 Provisions – Employee Incentive Schemes.

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

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

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

The Group has exposure in respect of cash-settled share-based payment transactions and share-based payment transactions with cash alternatives as defined by IFRS 2 "Share-Based Payment" in respect of bad leaver provisions in the Group's JSOS and the Cash LTIP (see note 3.13 Provisions). National insurance contribution (NIC) obligations arising from cash-settled schemes and HMRC unapproved equity-settled schemes are treated as if they are cash-settled, regardless of the actual cash/equity determination of the scheme itself.

Share Options and Other Equity Instruments

The Group operates various employee share incentive schemes, namely the Executive Share Ownership Scheme ("ESOS"), the Joint Share Ownership Scheme ("JSOS"), the Sharesave Scheme, the Long-Term Incentive Plan ("LTIP"), the Growth Incentive Plan ("GIP"), the Share Incentive Plan ("SIP"), the Value Creation Plan ("VCP"), the Ocado Technology Award and the Long-Term Operating Plan. The Group also operates a cash-settled incentive scheme, the Cash LTIP.

The total expense for the period relating to employee share-based payment plans was £24.2 million (2018: £13.1 million), of which £12.8 million (2018: £6.1 million) related to equity-settled share-based payment transactions and £11.4 million (2018: £7.0 million) as a provision for the payment of employers' NIC upon allotment of HMRC unapproved equity-settled share schemes, and the Cash LTIP (see note 3.13 Provisions for further details).

(a) ESOS

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

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

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



Notes to the Consolidated Financial Statements

Continued

4.11 Share Options and Other Equity Instruments Continued

At each respective Balance Sheet date the outstanding options were as follows:

	Year of Issue	1 December 2019	Exercise Price (£)	2 December 2018	Exercise Price (£)	Exercise Period
Approved						
	2009	-	-	16,339	1.20	31/05/12 – 30/05/19
	2009	-	-	55,460	1.35	02/11/12 – 29/11/19
	2010	75,439	1.65	100,754	1.65	30/06/13 – 29/06/20
	2011	45,066	2.55	72,932	2.55	14/02/14 – 13/02/21
	2011	5,317	1.89	5,800	1.89	19/07/14 – 18/07/21
	2012	49,031	1.03	77,827	1.03	21/02/15 – 13/02/22
	2012	147,451	1.05	218,417	1.05	09/03/15 – 08/03/22
	2012	11,003	0.85	18,149	0.85	27/06/15 – 26/06/22
	2013	68,782	1.28	95,591	1.28	05/03/16 – 04/03/23
	2013	38,898	3.02	47,955	3.02	08/07/16 – 07/07/23
	2013	288	3.02	-	-	08/07/16 – 05/08/20
	2014	4,998	5.10	10,594	5.10	05/02/17 – 04/02/24
	2014	94,073	4.84	151,907	4.84	17/03/17 – 16/03/24
	2014	2,890	4.84	-	-	17/03/17 – 05/08/20
	2015	88,583	3.77	144,814	3.77	13/03/18 – 12/03/25
	2015	1,835	3.77	-	-	13/03/18 – 05/08/20
	2015	7,457	4.46	19,166	4.46	01/07/18 – 30/06/25
	2015	9,098	4.39	19,061	4.39	10/07/18 – 09/07/25
	2016	184,394	2.70	486,334	2.70	16/03/19 – 15/03/26
	2016	4,341	2.70	-	-	16/03/19 – 05/08/30
	2016	6,297	2.59	26,757	2.59	15/07/19 – 14/07/26
	2017	860,706	2.56	992,286	2.56	14/03/20 – 13/03/27
	2017	46,562	2.56	-	-	05/08/19 – 13/09/20
	2017	14,749	2.92	16,464	2.92	15/08/20 – 14/08/27
	2018	285,479	5.68	351,865	5.68	21/03/21 – 20/03/28
	2018	15,691	5.68	-	-	05/08/19 – 19/09/21
	2018	1,700	5.68	-	-	21/03/21 – 19/09/21
	2018	17,820	10.45	21,264	10.45	13/08/21 – 12/08/28
	2018	2,871	10.45	-	-	05/09/19 – 11/02/22
	2019	196,133	12.40	-	-	29/07/22 – 28/07/29
	2019	241	12.40	-	-	29/07/22 – 28/01/23
Total approved options		2,287,193		2,949,736		
Non-approved						
	2009	-	-	39,000	1.20	31/05/12 – 30/05/19
	2012	45,800	1.05	77,294	1.05	09/03/15 – 08/03/22
	2014	14,997	4.84	19,286	4.84	17/03/17 – 16/03/24
	2014	5,328	3.36	6,955	3.36	01/08/17 – 31/07/24
	2014	1,975	3.27	2,954	3.27	08/08/17 – 07/08/24
	2015	4,858	3.77	8,056	3.77	13/03/18 – 12/03/25
	2015	7,877	4.46	11,443	4.46	01/07/18 – 30/06/25
	2015	1,638	4.46	-	-	01/07/18 – 05/08/20
	2015	4,638	4.39	8,494	4.39	10/07/18 – 09/07/25
	2016	71,014	2.70	127,784	2.70	16/03/19 – 15/03/26
	2016	29,314	2.59	50,810	2.59	15/07/19 – 14/07/26
	2017	175,390	2.56	187,100	2.56	14/03/20 – 13/03/27
	2017	80,966	2.92	87,443	2.92	15/08/20 – 14/08/27
	2018	68,546	5.68	72,718	5.68	21/03/21 – 20/08/28
	2018	26,589	10.45	30,207	10.45	13/08/21 – 14/08/28
	2019	36,667	11.37	-	-	16/08/22 – 14/08/29
	2019	35,321	12.40	-	-	29/07/22 – 27/07/29
Total non-approved options		610,918		729,544		
Total		2,898,111		3,679,280		

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

	Year of Issue	1 December 2019	2 December 2018			
		Number of Share Options	Exercise Price (£)	Number of Share Options	Exercise Price (£)	Exercise Period
	2009	-	-	49,600	1.20	31/05/12 – 30/05/19
Total options subject to performance criteria		-	-	49,600		

© See Alternative Performance Measures on pages 227 and 228.



4.11 Share Options and Other Equity Instruments Continued

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

	1 December 2019	2 December 2018		
	Number of Share Options	Weighted Average Exercise Price (£)	Number of Share Options	Weighted Average Exercise Price (£)
Outstanding at the beginning of the period	3,679,280	3.01	5,003,423	2.51
Granted during the period	273,385	12.26	498,143	6.18
Forfeited during the period	(139,042)	3.65	(306,013)	2.99
Exercised during the period	(915,512)	2.58	(1,516,273)	2.46
Outstanding at the end of the period	2,898,111	3.98	3,679,280	3.01
Exercisable at the end of the period	1,107,336	2.59	1,228,248	3.55

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

For exercises during the period, the weighted average share price at the date of exercise was £11.88 (2018: £7.27).

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

	1 December 2019	2 December 2018
Weighted average share price	£12.26	£6.18
Weighted average exercise price	£12.26	£6.18
Expected volatility	0.34	0.40
Weighted expected life – years	3.00	3.00
Weighted average risk-free interest rate	0.4%	1.0%
Expected dividend yield	0.0%	0.0%

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

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

	1 December 2019	2 December 2018	Weighted Average Remaining Contractual Life (years)		
	Exercise Price (£)	Number of Share Options	Exercise Price (£)	Number of Share Options	Weighted Average Remaining Contractual Life (years)
0.85	11,003	2.6	0.85	18,149	3.6
1.03	49,031	2.2	1.03	77,827	3.2
1.05	193,251	2.3	1.05	295,711	3.3
1.20	–	–	1.20	55,339	0.5
1.28	68,782	3.3	1.28	95,591	4.3
1.35	–	–	1.35	55,460	0.9
1.65	75,439	0.6	1.65	100,754	1.6
1.89	5,317	1.6	1.89	5,800	2.6
2.55	45,066	1.2	2.55	72,932	2.2
2.56	1,082,658	7.1	2.56	1,179,386	8.3
2.59	35,611	6.6	2.59	77,567	7.6
2.70	259,749	6.2	2.70	614,118	7.3
2.92	95,715	7.7	2.92	103,907	8.7
3.02	39,186	3.6	3.02	47,955	4.6
3.27	1,975	4.7	3.27	2,954	5.7
3.36	5,328	4.7	3.36	6,955	5.7
3.77	95,276	5.2	3.77	152,870	6.3
4.39	13,736	5.6	4.39	27,555	6.6
4.46	16,972	5.1	4.46	30,609	6.6
4.84	111,960	4.2	4.84	171,193	5.3
5.10	4,998	4.2	5.10	10,594	5.2
5.68	371,416	8.2	5.68	424,583	9.3
10.45	47,280	8.7	10.45	51,471	9.7
11.37	36,667	9.7	–	–	–
12.40	231,695	9.7	–	–	–
Outstanding at the end of the period	2,898,111			3,679,280	



Notes to the Consolidated Financial Statements

Continued

4.11 Share Options and Other Equity Instruments Continued

(b) JSOS

The JSOS is an executive incentive scheme which was introduced to incentivise and retain the Executive Directors and select members of senior management of the Group (the “Participants”). It is a share ownership scheme under which the Participants and Estera Trust (Jersey) Limited, Trustee of the Employee Benefit Trust, held at the Balance Sheet date separate beneficial interests in 1,604,915 ordinary shares (2018: 6,438,706) which represents 0.2% (2018: 0.9%) of the issued share capital of the Company. Of these ordinary shares, 735,557 (2018: 4,516,292) are held by the Employee Benefit Trust on an unallocated basis.

Nature of Interests

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

Participants

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

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

For JSOS1, Participants were required to purchase their Interest for 2.0% of the issue price. For JSOS2, the price ranged from 7.1% to 10.8%, and for JSOS3, 1.5% to 1.7% of the share price at the date of issue. When an Interest vests, the Trustee of the Employee Benefit Trust will transfer shares to the Participant of equal value to the Participant’s Interest or the shares will be sold and the Trustee of the Employee Benefit Trust will account to the Participant for the balance (i.e. the difference between the sale proceeds (less expenses) and the hurdle price).

Vesting Conditions

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

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

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

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

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



4.11 Share Options and Other Equity Instruments Continued

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

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

Details of the movement in the number of allocated Interests in shares during the current and prior periods are as follows:

	1 December 2019	2 December 2018		
	Weighted Number of Interests in Shares	Weighted Average Exercise Price (£)	Weighted Number of Interests in Shares	Weighted Average Exercise Price (£)
Outstanding at the beginning of the period	1,922,414	2.25	32,724,358	1.99
Exercised during the period	(1,053,056)	2.24	(30,801,944)	1.97
Outstanding at the end of the period	869,358	2.25	1,922,414	2.25
Exercisable at the end of the period	869,358	2.25	1,922,414	2.25

(c) Sharesave Scheme

In 2010 the Group launched the Ocado Group Sharesave Scheme ("SAYE"). This is an HMRC approved scheme and is open to any person that was an employee or officer of the Group at the launch date. Under the scheme, members save a fixed amount each month for three years. At the end of the three-year period they are entitled to use these savings to buy shares in the Company at 90.0% of the market value at launch date.

At 1 December 2019 employees of the Company's subsidiaries held 2,610 (2018: 1,135) contracts in respect of options over 6,723,223 (2018: 5,396,601) shares. Details of the movement in the number of Sharesave options outstanding during the current and prior periods are as follows:

	1 December 2019	2 December 2018		
	Weighted Number of Share Options	Weighted Average Exercise Price (£)	Weighted Number of Share Options	Weighted Average Exercise Price (£)
Outstanding at the beginning of the period	5,396,601	3.09	4,454,396	2.03
Granted during the period	1,629,893	11.17	2,071,434	4.57
Forfeited during the period	(272,599)	5.04	(469,447)	3.14
Exercised during the period	(30,672)	2.81	(659,782)	3.22
Outstanding at the end of the period	6,723,223	4.97	5,396,601	3.09
Exercisable at the end of the period	3,248,787	2.28	1,211	3.24

(d) Long-Term Incentive Plan

The Group operates equity-settled long-term incentive plans ("LTIP") as approved by the Remuneration Committee and shareholders, under which shares are conditionally awarded to Executive Directors and select members of senior management. The number of awards issued is calculated based on a percentage of the participants' salaries and will vest at the end of a period of three years from the grant date. The final number and proportion of awards expected to vest will depend on achievement of certain performance conditions. For both the 2015 LTIP and the 2016 LTIP, which vested in the prior and current periods respectively, there were four equally weighted performance conditions, which were operational efficiency and capital efficiency metrics related to the retail business and the platform business, the Group's retail business revenue and the Group's retail business earnings before tax for the financial year ended 3 December 2017, and financial year ending 2 December 2018 respectively. For the 2017 LTIP, there are four equally weighted performance conditions based on performance in the 2019 financial year, which are operational efficiency related to the retail business, Ocado Smart Platform sales target, the Group's retail business revenue and the Group's retail business earnings before tax. For the 2018 LTIP, there are four equally weighted performance conditions based on performance in the 2020 financial year, which are Ocado Smart Platform efficiency target, the Ocado Solutions revenue target, the Group's retail business revenue target and Group's retail business earnings before interest and tax.

The number of awards issued, adjusted to reflect the achievement of the performance conditions, will vest during 2020 for the 2017 LTIP and 2021 for the 2018 LTIP, with the exception of awards issued to the Executive Directors which have a two-year holding period and will be released in 2023. Full vesting will only therefore occur where exceptional performance levels have been achieved and significant shareholder value created. An award will lapse if a participant ceases to be employed within the Group before the vesting date.

A summary of the status of the LTIP as at 1 December 2019 and changes during the period is presented below:

	Number of Share Awards	Number of Share Awards
	1 December 2019	2 December 2018
Outstanding at the beginning of the period	4,247,037	4,308,708
Granted during the period	-	927,102
Forfeited during the period	(1,067,195)	(741,585)
Vested during the period	(709,571)	(247,188)
Outstanding at the end of the period	2,470,271	4,247,037

There were no awards exercisable as at 1 December 2019 (2018: nil).

The Group recognised an expense of £2.7 million (2018: £2.8 million) related to these awards in the Consolidated Income Statement during the period. The expectation of meeting the performance criteria, based upon internal budgets and forecasts, was taken into account when calculating this expense.



Notes to the Consolidated Financial Statements

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4.11 Share Options and Other Equity Instruments Continued

(e) Growth Incentive Plan

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

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

These awards vested in 2019.

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

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

Weighted average share price	£3.19
Value of FTSE 100 Index	6,389.25
Expected correlation	29%
Expected volatility of Company	40%
Expected volatility of FTSE 100 Index	16%
Weighted expected life – years	5.0
Risk-free rate	1.96%
Expected dividend yield	0.0%
Valuation model	Monte Carlo Pricing

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

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

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

A summary of the GIP as at 1 December 2019 and changes during the period is presented below:

	Number of Share Awards
Outstanding at 3 December 2017 and 2 December 2018	6,470,000
Vested during the period	(6,470,000)
Outstanding at 1 December 2019	-

As at 1 December 2019 all awards have been exercised. There were no awards exercisable as at 2 December 2018.

The Group recognised an expense of £7.3 million (2018: £4.3 million) related to these awards in the Consolidated Income Statement during the period. The expectation of meeting the performance criteria was taken into account when calculating this expense.

(f) Share Incentive Plan

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

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

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

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



4.11 Share Options and Other Equity Instruments Continued

A summary of the status of the SIP as at 1 December 2019 and changes during the period is presented below:

	Partnership Shares	Matching Shares	Free Shares	Number of Share Awards Total
Outstanding at 3 December 2017	436,789	62,098	1,800,852	2,299,739
Awarded during the period	89,553	12,670	276,566	378,789
Forfeited during the period	–	(14,778)	(306,522)	(321,300)
Released during the period	(123,089)	(2,679)	(133,438)	(259,206)
Outstanding at 2 December 2018	403,253	57,311	1,637,458	2,098,022
Unrestricted at 2 December 2018 (restated)	403,253	12,526	347,898	763,677

	Partnership Shares	Matching Shares	Free Shares	Number of Share Awards Total
Outstanding at 2 December 2018	403,253	57,311	1,637,458	2,098,022
Awarded during the period	65,222	9,142	208,597	282,961
Forfeited during the period	–	(5,624)	(143,175)	(148,799)
Released during the period	(77,926)	(5,365)	(335,194)	(418,485)
Outstanding at 1 December 2019	390,549	55,464	1,367,686	1,813,699
Unrestricted at 1 December 2019	390,549	23,537	457,688	871,774

In the period, the Group recognised an expense of £1.4 million (2018: £1.2 million) related to these awards. The expectation of meeting the holding period was taken into account when calculating this expense.

(g) Value Creation Plan

Following shareholder approval on 1 May 2019 the Company launched the Value Creation Plan ("VCP").

Nature of Conditional Award

Under the VCP, participants are granted a conditional award giving the potential right to earn nil-cost options based on the absolute total shareholder return generated over the VCP period. The award gives participants the opportunity to share in a proportion of the total value created for shareholders above a hurdle, ("Threshold Total Shareholder Return") at the end of each Plan Year ("Measurement Date") over a five-year VCP period.

At each Measurement Date, up to 2.75% of the value created above the hurdle will be "banked" in the form of share awards which will be released in line with the vesting schedule. The Initial Price for the VCP is the average share price over the 30-day period prior to the Annual General Meeting where shareholder approval was sought for the Plan (i.e. £13.97). The Initial Price is independent of the share price on the date of grant. Participants will receive the right at the end of each year of the performance period to share awards with a value representing the level of the Company's total shareholder return ("Measurement Total Shareholder Return") above the Threshold Total Shareholder Return at the relevant Measurement Date. The share price used at the Measurement Date will be the 30-day average following the announcement of the Group's results for the relevant financial year plus any dividends in respect of the Plan.

The Threshold Total Shareholder Return or hurdle which has to be exceeded before share awards can be earned by Participants is the higher of:

- the highest previous Measurement Total Shareholder Return; and
- the Initial Price compounded by 10% p.a.

If the value created at the end of a given Plan Year does not exceed the Threshold Total Shareholder return, nothing will accrue in that year under the VCP.

The first Measurement Date will be in March 2020, 30 days after publication of the 2019 full year results and as such, no nil-cost options were banked during the period.

Vesting Conditions

The vesting schedule provides that 50% of the cumulative number of share awards will vest following the third Measurement Date, 50% of the cumulative balance following the fourth Measurement Date, with 100% of the cumulative number of share awards vesting following the fifth Measurement Date. At each vesting date, vesting of awards is subject to:

- a. a minimum TSR underpin of 10% CAGR being maintained:
 - where the TSR underpin has been achieved at the third Measurement Date, 50% of the cumulative balance will vest. If the underpin has not been achieved no share awards will vest at this point but they will not lapse;
 - where the TSR underpin has been achieved at the fourth Measurement Date, 50% of the cumulative balance will vest. If the underpin has not been achieved no share awards will vest at this point but they will not lapse;
 - where the TSR underpin has been achieved at the fifth Measurement Date, 100% of the cumulative balance will vest. If the underpin has not been achieved no share awards will vest at this point and the remaining cumulative balance will lapse;
- b. any shares vesting cannot be sold prior to the fifth anniversary of the date of the implementation of the VCP;
- c. an annual cap on vesting of £20.0 million for the CEO and a proportionate limit for other participants:
 - in the event that in any year vesting as described above would exceed the annual cap, any share awards above the cap will be rolled forward and allowed to vest in subsequent years provided the cap is not exceeded in those years, until the VCP is fully paid out or after five years after the fifth Measurement Date when any unvested share awards will automatically vest. Rolled forward share awards will not be subject to further underpins, performance conditions or service conditions.



Notes to the Consolidated Financial Statements

Continued

4.11 Share Options and Other Equity Instruments Continued

Valuation of awards

To date, 2.55% of a possible 2.75% has been awarded in total to participants and these grants were made during the period. The fair value of awards granted under the VCP to date is £46.9 million spread over the five-year period. An expense of £5.7 million was recognised during the period (2018: £nil). In determining the fair value of the VCP awards granted during the period, a Monte Carlo model was used with the following inputs:

	31 May 2019	23 October 2019	8 November 2019
Portion of VCP granted	2.20%	0.05%	0.30%
Share price at grant	£11.95	£12.84	£11.90
Initial Price	£13.97	£13.97	£13.97
Exercise price	—	—	—
Expected volatility	0.34	0.34	0.34
Expected life – years	2.78/3.78/4.78	2.39/3.39/4.39	2.34/3.34/4.34
Risk-free interest rate	0.61%	0.44%	0.50%
Expected dividend yield	0.00%	0.00%	0.00%

Linked JOE awards

Under the terms of the VCP, at the time a VCP award is made, the participant may acquire a linked jointly owned equity (“JOE”) award with Estera Trust (Jersey) Limited, the Trustee of the Employee Benefit Trust. The JOE award permits participants to benefit from the increase (if any) in the value of a number of ordinary shares above a hurdle of 10% p.a. cumulative annual growth rate (which reflects the VCP Threshold Total Shareholder Return) over a time period matching the performance period of the VCP. Participants acquired JOE awards over a total of 9,245,601 shares. The value of these JOE awards (if any) will be applied to deliver part of the total value of the participants’ VCP awards on realisation of the VCP awards.

JOE award participants paid an initial cost for the JOE awards which is not repayable to them even if no value is delivered under the JOE awards.

(h) Ocado Technology Award

In the period, the Group granted shares to a senior employee of Ocado Technology. These are conditional on continued employment within the Group. The vesting of the award is split into tranches, with vestings taking place over five years.

A summary of the status of the award as at 1 December 2019 and changes during the year is presented below:

	Number of Share Awards 1 December 2019
Outstanding at 3 December 2017 and 2 December 2018	—
Granted during the period	235,475
Vested during the period	(30,000)
Outstanding at 1 December 2019	205,475

There were no awards exercisable as at 1 December 2019.

The Group recognised an expense of £1.0 million related to this award in the Consolidated Income Statement during the period.

(i) Long-Term Operating Plan

In the period, the Group granted shares to selected employees. The number of awards issued was calculated based on a percentage of the participants' salaries. The awards will vest in three equal tranches over three years. Upon vesting, each tranche is subject to an additional two-year holding period after which the shares will be released to the participants. The vesting of each tranche is conditional on continued employment within the Group and subject to the Company's share price exceeding a predetermined minimum.

A summary of the status of the award as at 1 December 2019 and changes during the year is presented below:

	Number of Share Awards 1 December 2019
Outstanding at 3 December 2017 and 2 December 2018	—
Granted during the period	166,856
Outstanding at 1 December 2019	166,856

There were no awards exercisable as at 1 December 2019.

The Group recognised an expense of £0.4 million related to this award in the Consolidated Income Statement during the period.



4.12 Capital Management

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

The Board closely manages trading capital, defined as net assets plus net cash. Net cash is calculated as total debt (obligations under lease liabilities and borrowings as shown on the Consolidated Balance Sheet), less cash and cash equivalents. The Group's net assets at the end of the period were £1,058.3 million (2018: £556.6 million) and it had net cash of £142.4 million (2018: £50.2 million).

The main areas of capital management revolve around working capital and compliance with externally imposed financial covenants. The Group's objectives when managing capital are to safeguard its ability to continue as a going concern and balance the needs of the Group to grow, while operating with sufficient headroom within its bank covenants. The components of working capital management include monitoring inventory turnover, age of inventory, age of receivables, receivables' days, payables' days, Balance Sheet re-forecasting, period projected profit/(loss), weekly cash flow forecasts and daily cash balances. Major investment decisions are based on reviewing the expected future cash flows and all major capital expenditure requires approval by the Board. There were no changes in the Group's approach to capital management during the period.

In the current period the Group has £225.0 million (2018: £250.0 million) of finance through the issue of senior secured notes with a fixed coupon rate of 4.0% and a maturity date of five years. In 2017, the £210.0 million RCF was reduced to £100.0 million and extended by a further three years to 2022. The funds from the senior secured notes issue have been used to pay down existing debt, including the £87.5 million previously drawn on the RCF. The remaining funds will be used for capital expenditure to increase capacity.

The Group reviews its financing arrangements regularly. Throughout the period, the Group has complied with all covenants imposed by lenders. In addition, a key aspect of capital management was the strategic operating agreement with Morrisons and the operation of MHE JVCo, a company jointly owned with Morrisons, discussed in note 5.1.

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

At the period end, the Group's undrawn facilities and cash and cash equivalents were as follows:

		1 December 2019 £m	2 December 2018 £m
	Notes		
Total facilities available		741.7	509.4
Facilities drawn down ⁽¹⁾	4.2	(608.2)	(360.6)
Undrawn facilities at end of period		133.5	148.8
Cash and cash equivalents	3.11	750.6	410.8
		884.1	559.6

(1) The facilities drawn down at the end of the period are net of transaction costs.

As at 1 December 2019 the unsecured £100.0 million revolving facility has not been utilised. Transaction costs of £5.4 million (2018: £5.7 million) relating to the senior secured notes have been capitalised. The Group reviews its financing arrangements regularly.



Notes to the Consolidated Financial Statements

Continued

Section 5 — Other Notes

5.1 Subsidiaries

In accordance with Section 409 of the Companies Act 2006, a full list of related undertakings, the country of incorporation and the effective percentage of equity owned, as at 1 December 2019 is disclosed below. All undertakings are indirectly owned by Ocado Group plc unless otherwise stated.

Name	Country of Incorporation	Principal Activity	Share Class	Proportion of Share Capital Held
Infinite Acres Holding B.V.	Netherlands ⁽¹⁾	Holding company	C shares	33.3%
JFC Hydroponics Ltd	United Kingdom ⁽²⁾	Non-trading company	Ordinary shares	100.0%
Jones Food Company Limited	United Kingdom ⁽²⁾	Growing of crops	Ordinary shares	64.1%
Karakuri Limited	United Kingdom ⁽³⁾	Software development	Ordinary shares	20.8%
Last Mile Technology Limited	United Kingdom ⁽⁴⁾	Non-trading company	Ordinary shares	100.0%
MHE JVCo Limited	United Kingdom ⁽⁴⁾	Trading company	£1.00 "B" shares	50.0%
Ocado Bulgaria EOOD	Bulgaria ⁽⁵⁾	Technology	Ordinary shares	100.0%
Ocado Central Services Limited	United Kingdom ⁽⁴⁾	Business services	Ordinary shares	100.0%
Ocado Holdings Limited†	United Kingdom ⁽⁴⁾	Holding company	Ordinary shares	100.0%
Ocado Innovation Limited†	United Kingdom ⁽⁴⁾	Technology	Ordinary shares	100.0%
Ocado International Holdings Limited	United Kingdom ⁽⁴⁾	Business services	Ordinary shares	100.0%
Ocado Operating Limited	United Kingdom ⁽⁴⁾	Logistics and distribution	Ordinary shares	100.0%
Ocado Polska Sp. z o.o.	Poland ⁽⁶⁾	Technology	Ordinary shares	100.0%
Ocado Retail Limited	United Kingdom ⁽⁷⁾	Retail	Ordinary shares	50.0%
Ocado Solutions Australia PTY Limited	Australia ⁽⁸⁾	Business services	Ordinary shares	100.0%
Ocado Solutions Canada Inc.	Canada ⁽⁹⁾	Business services	Ordinary shares	100.0%
Ocado Solutions France SAS	France ⁽¹⁰⁾	Business services	Ordinary shares	100.0%
Ocado Solutions Limited†	United Kingdom ⁽⁴⁾	Business services	Ordinary shares	100.0%
Ocado Solutions Sweden AB	Sweden ⁽¹¹⁾	Business services	Ordinary shares	100.0%
Ocado Solutions USA Inc.	United States of America ⁽¹²⁾	Business services	Ordinary shares	100.0%
Ocado Spain S.L.U.	Spain ⁽¹³⁾	Technology	Ordinary shares	100.0%
Ocado Sweden AB	Sweden ⁽¹⁴⁾	Technology	Ordinary shares	100.0%
Ocado Ventures Holdings Limited† (formerly Ocado Innovation Holdings Limited)	United Kingdom ⁽⁴⁾	Holding company	Ordinary shares	100.0%
Ocado Ventures (Infinite Acres) Limited†	United Kingdom ⁽⁴⁾	Holding company	Ordinary shares	100.0%
Ocado Ventures (Inkbit) Limited†	United Kingdom ⁽⁴⁾	Holding company	Ordinary shares	100.0%
Ocado Ventures (JFC) Limited†	United Kingdom ⁽⁴⁾	Holding company	Ordinary shares	100.0%
Ocado Ventures (Karakuri) Limited†	United Kingdom ⁽⁴⁾	Holding company	Ordinary shares	100.0%
Oxford US LLC	United States of America ⁽¹⁵⁾	Non-trading company	Ordinary shares	100.0%
Paneltex Limited	United Kingdom ⁽¹⁶⁾	Manufacturing	Ordinary shares	25.0%
Paws & Purrs Limited	United Kingdom ⁽⁷⁾	Retail	Ordinary shares	50.0%
Speciality Stores Limited	United Kingdom ⁽⁷⁾	Retail	Ordinary shares	50.0%

† Interest held directly by Ocado Group plc.

The registered offices of the above companies are as follows:

(1) Oude Delft 128, 2611 CG Delft, Netherlands

(2) Phase 2 Celsius Parc, Cupola Way, Scunthorpe, England, DN15 9YJ, United Kingdom

(3) 14 Amherst Avenue, London, England, W13 8NQ, United Kingdom

(4) Buildings One & Two, Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9UL, United Kingdom

(5) 17 Henrik Ibsen Street, Lozenets District, Sofia 1407, Bulgaria

(6) ul. Rakowicka 7, 31-511, Krakow, Poland

(7) Apollo Court, 2 Bishop Square, Hatfield Business Park, Hatfield, Hertfordshire, AL10 9EX, United Kingdom

(8) Level 9, 63 Exhibition Street, Melbourne, VIC 3000, Australia

(9) TMF Canada Inc, Suite 900, Purdy's Wharf Tower One, 1959 Upper Water Street, Halifax, N.S., B3J 3N2, Canada

(10) TMF Pôle, 3-5 rue Saint-Georges, 75009 Paris, France

(11) TMF Sweden, Sergels Torg 12, Stockholm, Sweden

(12) 12 Timber Creek Lane, Newark, Delaware 19711, United States of America

(13) Av. Josep Tarradellas 38, Planta 8a, 08029, Barcelona, Spain

(14) Drottning Kristinas Väg 53, 114 28, Stockholm, Sweden

(15) 1209 Orange Street, Wilmington, Delaware 19801, United States of America

(16) Paneltex House, Somerden Road, Hull, HU9 5PE, United Kingdom



5.1 Subsidiaries Continued

In accordance with the exemption under Section 479A of the Companies Act, the standalone financial statements for a subsidiary, Paws & Purrs Limited (registration number 07538307), will not be audited for the period ended 1 December 2019, but are included in the Group's consolidated financial statements for the period.

The Group owns 50.0% of the equity shares of Ocado Retail. However, management has determined that the Group controls Ocado Retail. This is on the basis that the Group has certain tie-breaking rights in relation to any deadlock matter which arises in respect of the approval of Ocado Retail's business plan and budget and the appointment or removal of the chief executive officer of Ocado Retail.

The Group has effective control over the financial and operating activities of the Ocado Cell in Atlas Insurance PCC Limited, an insurance company incorporated in Malta and therefore consolidates the Ocado Cell in its financial statements in accordance with IFRS 10 "Consolidated Financial Statements". The Group uses the Ocado Cell to provide self-insurance for its vehicle fleet and public and product liability claims.

5.2 Non-Controlling Interests

Accounting Policies

Non-controlling interests ("NCI") are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Non-Controlling Interests

The following table summarises the financial information for each subsidiary that has non-controlling interests, before any intra-Group eliminations, as at 1 December 2019:

	Ocado Retail	Jones Food Company	Total
NCI percentage	50.0%	35.9%	
	£m	£m	£m
Net assets	15.5	5.0	20.5
Net assets attributable to NCI	7.7	1.7	9.4
Revenue	553.1	0.1	553.2
Profit/(loss)	3.5	(1.1)	2.4
Other comprehensive income	–	–	–
Total comprehensive income/(expense)	3.5	(1.1)	2.4
Profit/(loss) allocated to NCI	1.7	(0.4)	1.3
Other comprehensive income allocated to NCI	–	–	–
Cash flows from operating activities	14.8	(0.7)	14.1
Cash flows from investment activities	–	(0.2)	(0.2)
Cash flows from financing activities	–	–	–
Net increase/(decrease) in cash and cash equivalents	14.8	(0.9)	13.9

No dividends were paid to the NCI during the year (2018: nil).

In August 2019, the Group disposed of a 50.0% interest in Ocado Retail. The fair value of the consideration received was £735.9 million (including a £9.9 million purchase price adjustment) and the carrying amount of Ocado Retail Limited's net assets in the Group's consolidated financial statements on the date of disposal was £12.1 million. The Group also incurred transaction costs of £19.2 million that were directly attributable to the transaction. Accordingly, the Group recognised an increase in non-controlling interests of £6.0 million and an increase in equity attributable to owners of Ocado Group plc of £710.7 million. The effect on the equity attributable to the owners of Ocado Group plc is summarised as follows:

	1 December 2019 £m
Total consideration received from NCI	735.9
NCI's share of net assets	(6.0)
Transaction costs	(19.2)
Increase in equity attributable to owners of the Group	710.7

5.3 Commitments

Capital Commitments

Contracts placed for future capital expenditure but not provided for in the financial statements are as follows:

	1 December 2019 £m	2 December 2018 £m
Land and buildings	1.5	0.1
Property, plant and equipment	92.1	69.6
Total capital expenditure committed at the end of the period	93.6	69.7



Notes to the Consolidated Financial Statements

Continued

5.3 Commitments Continued

Of the total capital expenditure committed at the period end, £72.5 million (2018: £0.1 million) relates to new CFCs, £9.5 million (2018: £35.3 million) to existing CFCs, £3.3 million (2018: £7.9 million) to fleet costs and £1.3 (2018: £nil) to technology projects.

Operating Lease Commitments

The Group leases a number of offices, facilities and items of equipment under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights.

From 3 December 2018, the Group has recognised right-of-use assets for these leases, except for short-term and low-value leases (see note 1.5 and note 4.3 for further information).

At 1 December 2019 the ageing profile of future aggregate minimum lease payments under non-cancellable operating leases is as follows:

	1 December 2019 £m	2 December 2018 £m
Due within one year	0.2	37.1
Due after one year but less than five	–	108.9
Due after five years	–	262.3
Total commitment	0.2	408.3

5.4 Related Party Transactions

Key Management Personnel

Only the Executive and Non-Executive Directors are recognised as being key management personnel. It is the Board which has responsibility for planning, directing and controlling the activities of the Group. The key management compensation is as follows:

	1 December 2019 £m	2 December 2018 £m
Salaries and other short-term employee benefits	4.7	4.2
Share-based payments	14.7	6.1
	19.4	10.3

Further information on the remuneration of Directors and Directors' interests in ordinary shares of the Company is disclosed in the Directors' Remuneration Report on pages 98 to 131.

Other related party transactions with key management personnel made during the period related to the purchase of professional services amounted to £5,000 (2018: £5,250). All transactions were on an arm's length basis and no period end balances arose as a result of these transactions. At the end of the period, there was £nil (2018: £nil) owed by key management personnel to the Group. There were no other material transactions or balances between the Group and its key management personnel or members of their close family.

Investment

The following transactions were carried out with Paneltex Limited, a company incorporated in the United Kingdom in which the Group holds a 25.0% interest. Further information on the Group's relationship with Paneltex is provided in note 3.5.

	52 Weeks Ended 1 December 2019 £m	52 Weeks Ended 2 December 2018 £m
Purchase of goods:		
– Plant and machinery	0.7	–
– Consumables	0.6	0.6

Indirect transactions, consisting of the purchase of plant and machinery through some of the Group's leasing counterparties, were carried out with Paneltex to the value of £9.1 million (2018: £8.2 million). At the period end, the Group owed Paneltex £23,000 (2018: £37,000).



5.4 Related Party Transactions Continued

Joint Venture

The following transactions were carried out with MHE JVCo, a joint venture company, incorporated in the United Kingdom, in which the Group holds an interest:

	1 December 2019 £m	2 December 2018 £m
Dividend received from MHE JVCo	15.6	–
Reimbursement/(settlement) of supplier invoices paid on behalf of MHE JVCo	4.2	(0.6)
Capital element of lease liability instalments paid to MHE JVCo	24.6	2.8
Capital element of lease liability instalments due to MHE JVCo	1.2	12.9
Interest element of lease liability instalments accrued or paid to MHE JVCo	3.7	4.4

During the period the Group incurred lease instalments (including interest) of £29.6 million (2018: £20.1 million) to MHE JVCo.

Of the £29.6 million, £9.0 million (2018: £9.5 million) was recovered directly from Morrisons in the form of other income and £15.6 million (2018: £nil) was received from MHE JVCo by way of a dividend. Of the remaining £4.9 million, £1.2 million (2018: £12.9 million) represents the capital element of the lease liability instalments due to MHE JVCo and £3.7 million (2018: £4.4 million) of interest incurred on the finance lease owing to MHE JVCo.

Included within trade and other receivables is a balance of £0.3 million (2018: £3.9 million) owed by MHE JVCo. £0.3 million (2018: £0.6 million) of this relates to a lease liability accrual which is included within other receivables. £nil (2018: £3.3 million) relates to capital recharges.

Included within trade and other payables is a balance of £1.8 million (2018: £20.2 million) owed to MHE JVCo.

Included within lease liabilities is a balance of £64.0 million (2018: £74.5 million) owed to MHE JVCo.

No other transactions that require disclosure under IAS 24 “Related Party Disclosures” have occurred during the current financial period.

5.5 Post Balance Sheet Events

Bond Issue

In December Ocado Group plc completed an offering of £600 million of guaranteed senior unsecured convertible bonds due in 2025.

The net proceeds from the issue of the bonds will be used to fund capital expenditure relating to Ocado Solutions’ commitments, and general corporate projects. The offering has enabled the Group to diversify its funding sources and capitalise on attractive issuance conditions.

The bonds were issued by Ocado Group and initially guaranteed by Ocado Operating Limited, Ocado Innovation Limited, Ocado Central Services Limited, Ocado Solutions Limited and Ocado Holdings Limited.





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Company Balance Sheet

as at 1 December 2019

	Notes	1 December 2019 £m	2 December 2018 £m
Non-current assets			
Investments	3.1	549.8	525.7
		549.8	525.7
Current assets			
Other receivables	3.3	573.8	536.7
Cash and cash equivalents	3.4	511.2	302.2
		1,085.0	838.9
Total assets		1,634.8	1,364.6
Current liabilities			
Trade and other payables	3.5	(277.3)	(17.3)
Provisions	3.6	(4.6)	(7.6)
		(281.9)	(24.9)
Net current assets		803.1	814.0
Non-current liabilities			
Borrowings	4.1	(219.5)	(244.3)
Provisions	3.6	(0.6)	(2.3)
		(220.1)	(246.6)
Net assets		1,132.8	1,093.1
Equity			
Share capital	4.2	14.2	14.0
Share premium	4.2	705.3	589.9
Retained earnings		413.3	489.2
Total equity		1,132.8	1,093.1

The Company's loss for the period was £8.5 million (2018: £7.2 million).

The notes on pages 213 to 221 form part of these financial statements.

The Company financial statements on pages 210 to 221 were authorised for issue by the Board of Directors and signed on its behalf by:

Tim Steiner

Chief Executive Officer

Duncan Tatton-Brown

Chief Financial Officer

11 February 2020

Ocado Group plc

Company Registration Number 07098618 (England and Wales)



Company Statement of Changes in Equity

for the 52 weeks ended 1 December 2019

	Notes	Share Capital £m	Share Premium £m	Retained Earnings £m	Total Equity £m
Balance at 3 December 2017		12.6	261.6	490.3	764.5
Loss for the period		–	–	(7.2)	(7.2)
Total comprehensive expense for the period ended 2 December 2018		–	–	(7.2)	(7.2)
Transactions with owners:					
– Issue of ordinary shares	4.2	1.3	322.1	–	323.4
– Allotted in respect of share option schemes	4.2	0.1	6.2	–	6.3
– Share-based payments charge	4.3	–	–	6.1	6.1
Total transactions with owners		1.4	328.3	6.1	335.8
Balance at 2 December 2018		14.0	589.9	489.2	1,093.1
Loss for the period		–	–	(8.5)	(8.5)
Total comprehensive expense for the period ended 1 December 2019		–	–	(8.5)	(8.5)
Transactions with owners:					
– Issue of ordinary shares	4.2	0.2	113.0	–	113.2
– Allotted in respect of share option schemes	4.2	–	2.4	–	2.4
– Growth Incentive Plan cash settlement on vesting	4.3	–	–	(80.2)	(80.2)
– Share-based payments charge	4.3	–	–	12.8	12.8
Total transactions with owners		0.2	115.4	(67.4)	48.2
Balance at 1 December 2019		14.2	705.3	413.3	1,132.8

The notes on pages 213 to 221 form part of these financial statements.



Company Statement of Cash Flows

for the 52 weeks ended 1 December 2019

	Notes	52 Weeks Ended 1 December 2019 £m	52 Weeks Ended 2 December 2018 £m
Cash flow from operating activities			
Loss before income tax		(8.5)	(7.2)
Adjustments for:			
- Net finance costs		6.2	6.1
- Share-based payments		12.8	6.1
- Movement in provisions	3.6	(4.7)	6.6
Changes in working capital:			
- Movement in other receivables	3.3	(37.1)	(151.0)
- Movement in trade and other payables	3.5	260.0	-
Cash generated from operating activities		228.7	(139.4)
Interest paid		(1.3)	(7.2)
Net cash from/(used in) operating activities		227.4	(146.6)
Cash flow from investing activities			
Interest received		2.7	1.8
Net cash from investing activities		2.7	1.8
Cash flow from financing activities			
Proceeds from issue of ordinary share capital, net of transaction costs		0.8	329.6
Proceeds from Value Creation Plan – jointly-owned equity awards		1.3	-
Proceeds from allotment of share options (on exercise)		2.4	-
Repayment of borrowings		(25.0)	-
Payment of financing fees		(0.6)	(0.1)
Net cash (used in)/from financing activities		(21.1)	329.5
Net increase in cash and cash equivalents		209.0	184.7
Cash and cash equivalents at beginning of period		302.2	117.5
Cash and cash equivalents at end of period	3.4	511.2	302.2

The notes on pages 213 to 221 form part of these financial statements.



Notes to the Company Financial Statements

Section 1 — Basis of Preparation

General Information

Ocado Group plc is incorporated in the United Kingdom. The Company is the parent and the ultimate parent of the Group. 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 1 December 2019. The prior financial period represents the 52 weeks ended 2 December 2018.

Basis of Preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Standards Interpretation Committee ("IFRIC") interpretations as endorsed by the European Union ("IFRS-EU"), and those parts of the Companies Act applicable to companies reporting under IFRS.

The financial statements are presented in pounds sterling, rounded to the nearest hundred thousand unless otherwise stated. They have been prepared under the historical cost convention, except for financial instruments that have been measured at fair value.

The Directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements of the Company.

Exemptions

The Directors have taken advantage of the exemption available under Section 408 of the Companies Act not to present an Income Statement or a Statement of Comprehensive income for the Company alone.

New Standards, Amendments and Interpretations Adopted by the Company:

The Company has adopted IFRS 9 "Financial Instruments" and IFRS 16 "Leases" in the current period and has concluded that they do not have a significant impact on the Company's financial statements other than on disclosures.

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 3 December 2018 and concluded that they are either not relevant to the Company or that they would not have a significant impact on the Company's financial statements other than on disclosures:

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

New Standards, Amendments and Interpretations Not Yet Adopted by the Company:

The following further new standards, interpretations and amendments to published standards and interpretations which are relevant to the Company have been issued but are not effective for the financial year beginning 3 December 2018 and have not been adopted early:

	Effective Date
IFRS 9	Financial Instruments (amendments)
IAS 19	Employee Benefits (amendments)
IAS 28	Investments in Associates and Joint Ventures (amendments)
IFRIC 23	Uncertainty over Income Tax Treatments
Annual Improvements to IFRS Standards 2015–2017 Cycle	1 January 2019
IFRS 3	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23
IAS 1, IAS 8	Business Combinations (amendments)
Various	Definition of Material (Amendments to IAS 1 and IAS 8)
IFRS 17	Amendments to References to the Conceptual Framework in IFRS Standards
IFRS 10	Insurance Contracts
IAS 28	Consolidated Financial Statements (amendments)
	1 January 2020
	1 January 2022
	Deferred
	Deferred

These standards, interpretations and amendments to published standards and interpretations are not expected to have a material impact on the Company's financial statements.

Accounting Policies

Foreign Currency Translation

Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuations 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.

Income 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 this case the tax is also recognised in other comprehensive income or directly in equity respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates 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.



Notes to the Company Financial Statements

Continued

Critical Accounting Estimates and Assumptions

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

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Significant accounting policies, key estimation uncertainties, and judgements are provided below:

Key Estimation Uncertainties:

Area	Estimate	Note
Provisions	The Company uses estimates to calculate provisions related to employee incentive schemes	3.6

Section 2 — Results for the Period

2.1 Loss Before Tax

Accounting Policies

Administrative Expenses

Administrative expenses consist of fees for professional services, bank charges and any other costs of an administrative nature.

2.2 Operating Results

During the period, the Company obtained audit services from its auditor, Deloitte LLP, to the amount of £80,000 (2018: £75,000).

2.3 Employee Information

The Company does not incur direct staff costs as the Group's employees are employed by a subsidiary company.

Analysis and disclosures in relation to share-based payments are given in note 4.3.

Section 3 — Assets and Liabilities

3.1 Investments

Accounting Policies

Investments in Group companies are valued at cost less accumulated impairment.

Investments

	1 December 2019 £m	2 December 2018 £m
Cost	476.5	476.5
Contributions to subsidiaries:		
- Novation of derivative liability in respect of warrants issued by Ocado Limited	1.1	1.1
- Group share-based payments	72.2	48.1
Carrying value at end of period	549.8	525.7

Investments represent investments in directly-owned Group companies. A list of subsidiary undertakings held by the Company is disclosed in note 5.1 to the Consolidated Financial Statements.

The Company charges subsidiaries the amount recognised as share-based payments relating to awards to their employees. These are recognised as an increase in the investment in relevant subsidiaries in accordance with IFRS 2 "Share-based Payment".

3.2 Working Capital

Accounting Policies

Other Receivables

Other receivables are non-interest-bearing and are recognised initially at fair value, and subsequently at amortised cost, reduced by appropriate provisions for estimated irrecoverable amounts. No security has been granted over other receivables unless stated otherwise. The amounts due from subsidiary undertakings are repayable on demand.

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 Balance Sheet date.

Financial Liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into.

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.



3.3 Other Receivables

	1 December 2019 £m	2 December 2018 £m
Amounts due from subsidiary undertakings	573.1	535.7
Other receivables	0.7	1.0
	573.8	536.7

3.4 Cash and Cash Equivalents

	1 December 2019 £m	2 December 2018 £m
Cash at bank and in hand	511.2	302.2

3.5 Trade and Other Payables

	1 December 2019 £m	2 December 2018 £m
Deferred income and accruals	6.7	4.6
Amounts due to subsidiary undertakings	270.6	12.7
	277.3	17.3

3.6 Provisions

Employee Incentive Schemes

Provisions for employee incentive schemes relate to HMRC unapproved equity-settled schemes and the Cash-based Long-Term Incentive Plan ("Cash LTIP"). For all unapproved schemes and the Cash LTIP, the Company is liable to pay employer's NIC upon allotment of the share awards.

Unapproved schemes are the Long-Term Incentive Plan ("LTIP"), the Growth Incentive Plan ("GIP"), the Valuation Creation Plan ("VCP"), the Ocado Technology award, the Long-Term Operating Plan and the Executive Share Option Scheme ("ESOS"). For more details on these schemes, refer to note 4.11 to the consolidated financial statements.

In 2014, the Company established the Cash LTIP in order to incentivise selected high performing employees of the Group. At the end of the three-year vesting period, employees will be paid a cash amount equal to the notional number of awards at the prevailing share price, adjusted for the achievement of the performance conditions.

Provisions

	Employee Incentive Schemes £m
As at 3 December 2017	3.4
Charged to the Income Statement:	
– Additional provision	7.2
– Unused amounts reversed	(0.2)
Used during the period	(0.5)
As at 2 December 2018	9.9
Charged to the Income Statement:	
– Additional provision	11.8
– Unused amounts reversed	(0.5)
Used during the period	(16.0)
As at 1 December 2019	5.2



Notes to the Company Financial Statements

Continued

3.6 Provisions Continued

Analysis of total provisions as at 2 December 2018

	Employee Incentive Schemes £m
Current	7.6
Non-current	2.3
	9.9

Analysis of total provisions as at 1 December 2019

	Employee Incentive Schemes £m
Current	4.6
Non-current	0.6
	5.2

Employee Incentive Schemes

The provision consists of the Cash LTIP and employer's NIC on HMRC unapproved equity-settled schemes.

The Cash LTIP provision represents the expected cash payments to participants upon vesting of the awards. It has been calculated using various assumptions regarding liquidity, participants' retention and achievability of the performance conditions and valued with reference to the year end share price. If at any point following initial valuation any of these assumptions are revised, the charge will need to be amended accordingly. In addition to the base cost, since this is a cash benefit, the Company will be liable to pay employer's NIC on the value of the cash award on vesting, which is included in the above employer's NIC provision.

To calculate the employer's NIC provision, the applicable employer's NIC rate is applied to the number of share awards which are expected to vest, valued with reference to the year end share price. The number of share awards expected to vest is dependent on various assumptions which are determined by management; namely participants' retention rate, the expectation of meeting the performance criteria, if any, and the liquidity discount. All assumptions are supported by historical trends and internal financial forecasts, where appropriate.

For the GIP and VCP, external valuations were carried out to determine the fair value of the awards granted (see notes 4.11 (e) and (g) to the consolidated financial statements).

If at any point during the life of each share award any non-market conditions are subject to change, such as the retention rate or the likelihood of the performance condition being met, the number of share awards likely to vest will need to be recalculated which will cause the value of the employer's NIC provision to change accordingly.

Once the share awards under each of the schemes have vested, the provision will be utilised when they are allotted to participants. Vesting will occur between 2019 and 2021.



Section 4 – Capital Structure and Financing Costs

4.1 Borrowings

	1 December 2019 £m	2 December 2018 £m
Borrowings	219.5	244.3

The loans outstanding at 2 December 2018 can be analysed as follows:

Principal Amount £m	Inception	Security Held	Current Interest Rate	Instalment Frequency	Final Payment Due	Carrying Amount as at 2 December 2018 £m
250.0	June 2017	Collateral	4%	Biannual	June 2024	244.3

The loans outstanding at 1 December 2019 can be analysed as follows:

Principal Amount £m	Inception	Security Held	Current Interest Rate	Instalment Frequency	Final Payment Due	Carrying Amount as at 1 December 2019 £m
225.0	June 2017	Collateral	4%	Biannual	June 2024	219.5

4.2 Share Capital and Premium

Accounting Policies

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

Share Capital and Premium

Included in the total number of ordinary shares outstanding below are 10,850,516 (2018: 6,438,706) ordinary shares held by the Group's Employee Benefit Trust (see note 4.11(b) and (g) to the consolidated financial statements). The ordinary shares held by the Trustee of the Group's Employee Benefit Trust pursuant to the Joint Share Ownership Scheme, and the linked jointly-owned equity ("JOE") awards under the Value Creation Plan ("VCP") are treated as treasury shares in the Group's Consolidated Balance Sheet in accordance with IAS 32 "Financial Instruments: Presentation". These ordinary shares have voting rights but these have been waived by the Trustee. The number of allotted, called up and fully paid shares, excluding treasury shares, at the end of each period differs from that used in the basic earnings per share calculation in note 2.10 to the consolidated financial statements, as basic loss per share is calculated using the weighted average number of ordinary shares in issue during the period, excluding treasury shares.

At 1 December 2019, the number of ordinary shares available for issue under the Block Listing Facilities was 13,657,551 (2018: 10,014,711). These ordinary shares will only become allotted when the shares under the Share Incentive Plan have been awarded or the share options under the Group's Executive Share Ownership Scheme, non-employee share options and Sharesave schemes have been exercised, and are therefore not included in the total number of ordinary shares outstanding.

The movements in the called up share capital and share premium are set out below:

	Number of Ordinary Shares Million	Ordinary Shares £m	Share Premium £m
At 3 December 2017			
Issue of ordinary shares	630.7	12.6	261.6
Allotted in respect of share option schemes	65.0	1.3	322.1
	2.6	0.1	6.2
At 2 December 2018	698.3	14.0	589.9
Issue of ordinary shares	10.0	0.2	113.0
Allotted in respect of share option schemes	0.9	–	2.4
At 1 December 2019	709.2	14.2	705.3

4.3 Share-Based Payments

For more information on the Group's share schemes, see note 4.11 to the consolidated financial statements.



Notes to the Company Financial Statements

Continued

4.4 Financial Instruments

Accounting Policies

Financial assets and financial liabilities are recognised on the Balance Sheet when the Company becomes a party to the contractual provisions of the instrument.

The Company classifies its financial assets as amortised cost, fair value through profit or loss ("FVTPL") and fair value through other comprehensive income ("FVTOCI").

The classification depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them.

Financial liabilities are measured at amortised cost except for derivatives which are measured at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments). Classification depends on the purpose for which the financial liability was acquired.

Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount reported on the Balance Sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Fair Value of Financial Instruments

Set out below is a comparison by category of carrying values and fair values of all financial instruments that are included in the financial statements. The fair values of financial assets and liabilities are based on prices available from the market on which the instruments are traded where available. The fair values of cash and cash equivalents, receivables and payables are assumed to approximate to their carrying values but for completeness are included in the analysis below.

	Notes	1 December 2019		2 December 2018	
		Carrying Value £m	Fair Value £m	Carrying Value £m	Fair Value £m
Financial assets					
Investments	3.1	549.8	549.8	525.7	525.7
Cash and cash equivalents	3.4	511.2	511.2	302.2	302.2
Other receivables	3.3	573.8	573.8	536.7	536.7
Total financial assets		1,634.8	1,634.8	1,364.6	1,364.6
Financial liabilities					
Trade and other payables	3.5	(277.3)	(277.3)	(17.3)	(17.3)
Senior secured notes	4.1	(219.5)	(231.3)	(244.3)	(238.6)
Total financial liabilities		(496.8)	(508.6)	(261.6)	(255.9)

4.5 Credit Risk

The Company's exposures to credit risk arise from holdings of cash and cash equivalents and other receivables.

Exposure to Credit Risk

The carrying value of financial assets, as set out in note 4.7, represents the maximum credit exposure. No collateral is held as security against these assets.

Cash and Cash Equivalents

The Company's exposure to credit risk on cash and cash equivalents is managed by investing in banks and financial institutions with strong credit ratings and by regular review of counterparty risk.

Other Receivables

Other receivables at the end of the current and prior periods consist primarily of amounts due from subsidiary undertakings. Management provides for irrecoverable debts when there are indicators that a balance may not be recoverable.

The ageing of other receivables at the Balance Sheet date was as follows:

	3.3	1 December 2019		2 December 2018	
		Gross £m	Impairment £m	Gross £m	Impairment £m
Not past due		573.8	-	536.7	-



4.6 Liquidity Risk

In the current period, the unsecured £100.0 million revolving facility expiring in 2022 has not been utilised. The Company reviews its financing arrangements regularly. The Company monitors cash flow as part of its day-to-day control procedures and the Board considers cash flow projections on a monthly basis. The Company's capital management policies are consistent with those of the Group. For further details on the Group's capital management strategy see note 4.12 to the consolidated financial statements.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the Balance Sheet date to the contractual maturity date. The amounts disclosed in the table are the carrying values and undiscounted contractual cash flows.

	Notes	Carrying Value £m	Contractual Cash Flows £m	1 Year or Less £m	1 – 2 Years £m	2 – 5 Years £m	More Than 5 Years £m
Financial liabilities							
Trade and other payables	3.5	(17.3)	(17.3)	(17.3)	–	–	–
Senior secured notes	4.1	(244.3)	(310.0)	(10.0)	(10.0)	(30.0)	(260.0)
2 December 2018		(261.6)	(327.3)	(27.3)	(10.0)	(30.0)	(260.0)

	Notes	Carrying Value £m	Contractual Cash Flows £m	1 Year or Less £m	1 – 2 Years £m	2 – 5 Years £m	More Than 5 Years £m
Financial liabilities							
Trade and other payables	3.5	(277.3)	(277.3)	(277.3)	–	–	–
Senior secured notes	4.1	(219.5)	(270.0)	(9.0)	(9.0)	(252.0)	–
1 December 2019		(496.8)	(547.3)	(286.3)	(9.0)	(252.0)	–

4.7 Market Risk

Currency Risk

The Company engages in foreign currency transactions to a very limited extent. No financial assets are held in foreign currencies. Due to the Company's lack of exposure to currency risk, no sensitivity analysis has been performed.

Interest Rate Risk

The Company has no interest-bearing financial liabilities with a variable rate and its interest-bearing financial assets consist of only cash and cash equivalents and certain amounts due from subsidiary undertakings. These financial assets are exposed to interest rate risk as the Company holds money market deposits at floating interest rates. The risk is managed by investing cash in a range of cash deposit accounts with banks in the United Kingdom split between fixed-term deposits, notice accounts and money market funds.

At the Balance Sheet date the interest rate profile of the Company's interest-bearing financial instruments was:

	1 December 2019 £m	2 December 2018 £m
Fixed rate instruments		
Financial assets	511.2	302.2
Financial liabilities	(219.5)	(244.3)

Sensitivity Analysis

An increase of 100 basis points (1.0%) in interest rates would impact equity and profit or loss by the amounts shown below. A rate of 100 basis points was deemed appropriate, considering the current short-term interest rate outlook. The calculation applies the increase to average floating rate interest-bearing borrowings and cash and cash equivalents existing during the period. This analysis assumes that all other variables remain constant and considers the effect on financial instruments with variable interest rates.

	1 December 2019 £m	2 December 2018 £m
Equity		
Result	–	–
Income	–	–
Gain	2.9	1.8



Notes to the Company Financial Statements

Continued

4.8 Financial Instruments by Category

The Company has categorised its financial instruments as follows (the financial instrument classifications in the prior period are in accordance with IAS 39):

	Notes	Available-For-Sale £m	Loans and Receivables £m	Other Financial Liabilities at Amortised Cost £m	Total £m
As at 2 December 2018					
Financial assets					
Investments	3.1	525.7	–	–	525.7
Cash and cash equivalents	3.4	–	302.2	–	302.2
Other receivables	3.3	–	536.7	–	536.7
Total		525.7	838.9	–	1,364.6
Financial liabilities					
Trade and other payables	3.5	–	–	(17.3)	(17.3)
Secured loan notes	4.1	–	–	(244.3)	(244.3)
Total		–	–	(261.6)	(261.6)
As at 1 December 2019					
Financial assets		Amortised Cost £m	FVTOCI £m	FVTPL £m	Total £m
Investments	3.1	549.8	–	–	549.8
Cash and cash equivalents	3.4	511.2	–	–	511.2
Other receivables	3.3	573.8	–	–	573.8
Total		1,634.8	–	–	1,634.8
Financial liabilities					
Trade and other payables	3.5	(277.3)	–	–	(277.3)
Secured loan notes	4.1	(219.5)	–	–	(219.5)
Total		(496.8)	–	–	(496.8)

4.9 Capital Management

The Board's objectives and policies for the Company are consistent with those of the Group. Full details are provided in note 4.12 to the consolidated financial statements.



Section 5 — Other Notes

5.1 Related Party Transactions

Key Management Personnel

Only the Executive and Non-Executive Directors are recognised as being key management personnel. It is the Board which has responsibility for planning, directing and controlling the activities of the Company. Executive and Non-Executive Directors did not receive any remuneration for their services to the Company.

Directors' interests in ordinary shares of the Company are disclosed in the Directors' Remuneration Report on page 127.

There were no material transactions or balances between the Company and its key management personnel or members of their close family. At the end of the period, key management personnel did not owe the Company any amounts.

Subsidiaries

The Company enters into loans with its subsidiaries. interest of £1.6 million (2018: £nil) was earned on these loans during the period.

	52 Weeks Ended 1 December 2019 £m	52 Weeks Ended 2 December 2018 £m
Transactions with subsidiaries		
Group share-based payments	24.2	13.1
Increase in loans made to subsidiary undertakings	37.4	149.2
Increase/(decrease) in amounts due to subsidiary undertakings	257.9	12.1
Period end balances arising from transactions with subsidiaries		
Receivables:		
Loans and receivables due from subsidiaries	573.1	535.7
Payables:		
Loans and receivables due to subsidiaries	(270.6)	(12.7)

5.2 Post Balance Sheet Events

In December 2019 Ocado Retail was granted a revolving credit facility of £30.0 million of which the Company is a guarantor for £15.0 million.

For information on the bond issue, see note 5.6 to the consolidated financial statements.



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Glossary

2014 ESOS – means the Ocado 2014 Executive Share Option Scheme.

2018 Code – means the UK Corporate Governance Code published by the FRC in July 2018.

2019 Directors' Remuneration Policy

or 2019 Policy – means the Directors' remuneration policy which was approved by shareholders at the 2019 annual general meeting.

Active Customers – means customers who have shopped with Ocado in the previous 12 weeks.

Administrative Expenses – means all IT costs, advertising and marketing expenditure, employment costs of all head office functions, which include 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 head office IT equipment, software, fixtures and fittings and expenses relating to the Group's share schemes.

Admission – means the admission of the ordinary shares of the Company to the premium listing segment of the Official List and to trading on the London Stock Exchange's main market for listed securities which occurred on 26 July 2010.

AGM – means the Annual General Meeting of the Company, which will be held on 6 May 2020 at 10am at The London Stock Exchange Building, 10 Paternoster Square, London, EC4M 7LT.

American Depository Receipts – means securities that have been created to permit US investors to hold shares in non-US companies and, in a Level 1 programme, to trade them on the over-the-counter market in the United States.

Annual Incentive Plan or AIP – means the Executive Director incentive plan for the Group applicable to a particular financial year.

Articles – means the articles of association of the Company.

Board – means the Board of Directors of the Company or its subsidiaries from time to time as the context may require.

Bon Preu – means Bon Preu SA, a company incorporated in Spain whose registered office is at Carrer C, 17, 08040 Barcelona.

Brexit – means the United Kingdom's decision to leave the European Union following the referendum on 23 June 2016.

Cash LTIP – means the Company's cash-based Long-Term Incentive Plan for senior employees.

Casino – means Casino Guichard Perrachon SA, a company incorporated in France whose registered office is at 24 Rue de la Montat, Saint-Etienne.

Chairman's Share Matching Award – means a one-off award of shares to Lord Rose, made in May 2013.

Code – means the UK Corporate Governance Code published by the FRC in April 2016.

Companies Act – means the Companies Act 2006.

Company – means Ocado Group plc, a company incorporated in England and Wales with registered number 07098618 whose registered office is at Buildings 1 & 2 Trident Place, Hatfield Business Park, Mosquito Way, Hatfield, Hertfordshire, AL10 9UL.

Corporate Website – means www.ocadogroup.com.

CR – means Corporate Responsibility.

CSTM – means Customer Service Team Member, the title given to our customer facing delivery drivers.

Customer Fulfilment Centre or CFC – means a dedicated highly automated warehouse used for the operation of the business.

Deloitte – means Deloitte LLP, the Group's statutory auditor or the Group's advisers in respect of non-audit services.

Directors – means the Directors of the Company whose names and biographies are set out on pages 72 to 73 or the Directors of the Company's subsidiaries from time to time as the context may require.

Disclosure Guidance and Transparency

Rules – means the disclosure guidance and transparency rules made under Part VI of the Financial Services and Markets Act 2000 (as amended).

Distribution Costs – means all the costs incurred, excluding product costs, to the point of sale, usually the customer's home. This includes the payroll-related expenses for the picking, dispatch and delivery of product 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.

DNED – means the Designated Non-Executive Director for workforce engagement.

Dobbies – means Dobbies Garden Centres Limited, a company incorporated in Scotland with registered number SC010975 whose registered office is at Melville Nurseries, Lasswade, Midlothian, EH18 1AZ.

DPV – means deliveries per van per week.

EBITDA – means the non-GAAP measure which Ocado has defined as earnings before net finance costs, taxation, depreciation, amortisation, impairment and exceptional items.

EBT – as relating to the Income Statement, means earnings before tax. As relating to share schemes, means Employee Benefit Trust.

EBT Trustee – means the Trustee from time to time of the Employee Benefit Trust established for the purposes of the JSOS, currently Estera Trust (Jersey) Limited.

EPS – means earning per share.

ESOS – means the HMRC-approved Ocado 2001 Executive Share Option Scheme and the Ocado 2001 Non-HMRC approved Executive Share Option Scheme.

Exceptional Items – means items that due to their material and non-recurring nature have been classified separately in order to draw them to the attention of the reader of the financial statements.

Executive Directors – means Tim Steiner, Luke Jensen, Neill Abrams, Duncan Tatton-Brown, Mark Richardson.

Fabled or Fabled.com – means the Group's premium beauty online store in collaboration with Marie Claire and Time Inc.

Fetch or Fetch.co.uk – means the Group's dedicated online pet store.

Financial Period – means the 52-week period, or 53-week period where relevant, ending the closest Sunday to 30 November.

Financial Year or FY – see Financial Period.

FRC – means the Financial Reporting Council.

GAAP – means generally accepted accounting principles.

GDPR – means General Data Protection Regulation.

GHG – means greenhouse gas(es).

GIP – means the Growth Incentive Plan.

GMDC – means the General Merchandise Distribution Centres in Welwyn Garden City and Erit, dedicated highly automated warehouses used for the operation of the business.



GPP – means the Ocado Group Pension Plan.

Gross Sales – means sales (net of returns), including charges for delivery, before deducting relevant vouchers, offers and value added tax. Relevant vouchers and offers include money-off coupons, conditional spend vouchers and multibuy offers, such as buy three for the price of two. This includes sales from ocado.com, fetch.co.uk, sizzle.co.uk and fabled.com.

Group – means Ocado Group plc, its subsidiaries, significant undertakings and affiliated companies under its control or common control.

GSCOP – means Groceries Supply Code of Practice.

HMRC – means Her Majesty's Revenue & Customs.

IAS – means International Accounting Standard(s).

ICA – means ICA Group, a company incorporated in Sweden whose registered office is at Svetsvägen 16, Solna.

IFRIC – means International Financial Reporting Standards Interpretations Committee.

IFRS – means International Financial Reporting Standard(s).

IGD – means the Institute of Grocery Distribution.

IP – means Intellectual Property.

ISA (UK & Ireland) – means International Standard on Auditing in the UK and Ireland.

John Lewis – means John Lewis plc, the parent company of Waitrose, incorporated in the United Kingdom with registered number 233462 whose registered office is at 171 Victoria Street, London, SW1E 5NN.

Jones Food Company – means Jones Food Company Limited.

JSOS – means the Group's Joint Share Ownership Scheme. It comprises three issues called JSOS1, JSOS2 and JSOS3.

KPI – means key performance indicators.

Kroger – means The Kroger Co., a company incorporated in the USA, whose registered office is at 1014 Vine Street, Cincinnati, Ohio.

LIBOR – means the London Interbank Offered Rate.

Listing Rules – means the Listing Rules made by the UK Listing Authority under Part VI of the Financial Services and Markets Act 2000 (as amended).

LPP – means Low Price Promise, the Ocado voucher scheme which entitles customers to receive discount vouchers where their shopping basket has cost more than it would have at selected competitors.

LTIP – means the Company's Long Term Incentive Plan for Executive Directors and selected senior managers.

Management Committee – means senior management responsible for managing the day-to-day operations of the business.

MHE – means mechanical handling equipment.

MHE JVCo – means MHE JVCo Limited, a company incorporated in the United Kingdom with registered number 8576462, whose registered office is at Buildings 1 & 2 Trident Place, Hatfield Business Park, Mosquito Way, Hatfield, AL10 9UL. MHE JVCo is jointly owned by a Group subsidiary and Morrisons.

Morrisons – means Wm Morrison Supermarkets plc, a company incorporated in the United Kingdom with registered number 353949, whose registered office is at Hilmore House, Gain Lane, Bradford, West Yorkshire, BD3 7DL.

Morrisons.com – means Morrisons' online retail business.

Net Finance Costs – means finance income less finance costs. Finance income is composed principally of bank interest and other interest. Finance cost is composed of interest on bank loans and overdrafts, interest on lease liabilities and interest on other financing arrangements.

Non-Executive Directors – means the Non-Executive Directors of the Company designated as such on page 70.

Notice of Meeting – means the notice of the Company's AGM.

Ocado.com – means the Group's online retail business.

Ocado Council – means the Ocado forum used to consult with our employees.

Ocado Holdings – means Ocado Holdings Limited.

Ocado Solutions – means Ocado Solutions Limited.

Ocado Operating – means Ocado Operating Limited.

Ocado Retail – means the Group's retail business, Ocado Retail Limited.

Ocado Smart Platform or OSP – means the end-to-end solution for operating online in the grocery market, which has been developed by the Group.

Ocado Solutions – means the Group's Solutions business.

OPW – means orders per week.

Other Income – means primarily revenue for advertising services provided by Ocado to suppliers and other third parties on the Webshop, commission income and sublease payments. Other income is recognised in the period to which it relates on an accruals basis.

Participants – means eligible staff who participate in one of the Company's staff share schemes.

Prospectus – means the Company's prospectus dated 6 July 2010 prepared in connection with the Company's Admission.

R&D – means Research and Development.

Revenue – means online sales (net of returns) through the Webshop and Ocado on the Go, including charges for delivery, but excluding relevant vouchers, offers and value added tax. The recharge of costs to Morrisons and fees charged to Morrisons and other Solutions clients are also included in Revenue. Relevant vouchers and offers include money-off coupons, conditional spend vouchers and multi-buy offers, such as buy three for the price of two.

Senior Secured Notes or Notes – means the Company's offering of £250 million Senior Secured Notes due 2024 at a coupon of 4% and an issue price of 100%. For more details, see page 186.

Shareholder – means a holder for the time being of ordinary shares in the Company.

Sharesave Scheme or SAYE Scheme – means the Ocado employee savings-related share option plan approved by HMRC.

SID – means the Senior Independent Director.

SIP – means the Share Incentive Plan.

Sizzle.co.uk – means the Group's dedicated online kitchen and dining store.

SKU – means a "stock keeping unit", that is each line of stock.

Smart Pass (previously Saving Pass) – means the Ocado pre-pay membership scheme which includes the delivery pricing scheme previously known as Delivery Pass and the discount membership scheme formerly known as Saving Pass.

Sobeys – means Sobeys Inc., a wholly-owned subsidiary of Empire Company Limited incorporated in Canada whose registered office is at 115 King Street, Stellarton, Nova Scotia.



Glossary

Continued

Sourcing Agreement – means the various sourcing and branding agreements between Ocado, Waitrose and John Lewis.

Spoke – means the trans-shipment sites used for the intermediate handling of customers' orders.

Substitution – means an alternative product provided in place of the original product ordered by a customer.

TSR – means total shareholder return – the growth in value of a shareholding over a specified period, assuming that dividends are reinvested to purchase additional units of the stock.

UPH – means average units processed per labour hour.

USDAW – means the Union of Shop, Distributive and Allied Workers.

VCP – means the Company's Value Creation Plan for Executive Directors.

Waitrose – means Waitrose Limited, a company incorporated in the United Kingdom with registered number 00099405, whose registered office is at 171 Victoria Street, London, SW1E 5NN.

Webshop – means the customer facing internet-based virtual shop accessible via the websites www.ocado.com, www.fabled.com, www.fetch.co.uk and www.sizzle.co.uk.



Alternative Performance Measures

The Group assesses its performance using a variety of alternative performance measures which are not defined under IFRS and are therefore termed “non-GAAP” measures. These measures provide additional useful information on the underlying trends, performance and position of the Group. The non-GAAP measures we used are:

- Exceptional Items;
- Segmental Revenue;
- Segmental Gross Profit;
- Segmental Other Income;
- Segmental Administrative Costs and Distribution Costs;
- EBITDA;
- Segmental EBITDA;
- External Gross Debt; and
- Net Cash

Reconciliation of these non-GAAP measures to the nearest measures prepared in accordance with IFRS are presented below. The alternative performance measures used may not be directly comparable with similarly titled measures used by other companies.

Exceptional Items

The Group's Consolidated Income Statement separately identifies trading results before exceptional items. The Directors believe that presentation of the Group's results in this way is relevant to an understanding of the Group's financial performance. This presentation is consistent with the way that financial performance is measured by management and reported to the Board and assists in providing a meaningful analysis of the trading results of the Group. This also facilitates comparison with prior periods to assess trends in financial performance more readily.

The Group applies judgement in identifying significant non-recurring items of income and expense that are recognised as exceptional to help provide an indication of the Group's underlying business. In determining whether an event or transaction is exceptional in nature, management considers quantitative as well as qualitative factors such as the frequency or predictability of occurrence.

Examples of items that the Group considers exceptional include, but are not limited to, material costs relating to the opening of a new warehouse, corporate reorganisations, material litigation, and any material costs, outside of the normal course of business as determined by management.

The Group has adopted a three-column approach to the Consolidated Income Statement to aid clarity and allow users of the financial statements to more easily understand the performance of the underlying business and the impact of one-off events.

Exceptional items are disclosed in note 2.7 to the consolidated financial statements.

Segmental Revenue

Segmental revenue is a measure of reported revenue for the Group's Retail, UK Solutions and International Solutions segments. A reconciliation of revenue for the segments to revenue for the Group can be found in note 2.2 to the consolidated financial statements.

Segmental Gross Profit

Segmental gross profit is a measure which seeks to reflect the profitability of segments in relation to their revenues earned.

A reconciliation of reported gross profit, the most directly comparable IFRS measures, with the segmental gross profit, is set out below:

	2019 £m	2018 £m
Retail gross profit	466.4	423.6
UK Solutions gross profit	583.2	541.1
International Solutions gross profit	0.4	0.5
Other gross profit	0.9	2.1
Group Eliminations gross profit	(453.6)	(419.8)
Reported gross profit	597.3	547.5

Segmental Other Income

Segmental other income is a measure which seeks to reflect segmental income which is not generated through the primary trading activities of the segments (for example, volume-rebates from suppliers in the Retail segment).

A reconciliation of reported other income, the most directly comparable IFRS measures, with the segmental other income, is set out below:

	2019 £m	2018 £m
Retail other income	65.6	59.8
UK Solutions other income	3.0	2.6
International Solutions other income	–	–
Other other income	15.4	9.5
Group Eliminations other income	(0.1)	–
Reported other income	83.9	71.9



Alternative Performance Measures

Continued

Segmental Administrative Costs and Distribution Costs

Segmental distribution and administrative costs are measures which seek to reflect the performance of the Group's segments in relation to the long-term sustainable growth of the Group. These measures exclude certain costs that are not allocated to a segment: depreciation, amortisation, impairment and other central costs.

A reconciliation of reported distribution and administrative costs, the most directly comparable IFRS measures, to the segmental distribution and administrative costs, is set out below:

	2019 £m	2018 £m
Retail distribution and administrative costs	497.0	453.3
UK Solutions distribution and administrative costs	501.3	476.2
International Solutions distribution and administrative costs	62.5	28.9
Other distribution and administrative costs	31.5	22.5
Group Eliminations distribution and administrative costs	(453.7)	(419.8)
Depreciation, amortisation, impairment and other central costs	136.1	91.3
	774.7	652.4
	2019 £m	2018 £m
Reported distribution costs	564.8	485.4
Reported administrative expenses	209.9	167.0
	774.7	652.4

EBITDA

In addition to measuring its financial performance based on operating profit, the Group also measures performance based on EBITDA. EBITDA is defined as the Group earnings before depreciation, amortisation, impairment, net finance expense, taxation and exceptional items. EBITDA is a common measure used by investors and analysts to evaluate the operating financial performance of companies.

The Group considers EBITDA to be a useful measure of its operating performance because it approximates the underlying operating cash flow by eliminating depreciation and amortisation. EBITDA is not a direct measure of liquidity, which is shown by the cash flow statement, and needs to be considered in the context of the Group's financial commitments.

A reconciliation of operating profit to EBITDA can be found on the face of the Consolidated Income Statement on page 151.

Segmental EBITDA

The financial performance of the Group's segments is measured based on EBITDA, as reported internally.

A reconciliation of EBITDA for the segments to EBITDA for the Group can be found in note 2.2 to the consolidated financial statements.

External Gross Debt

External gross debt consists of loans and other borrowings (both current and non-current), less lease liabilities payable to joint venture interests of the Group.

External gross debt is a measure of the Group's indebtedness to third parties which are not considered a related party to the Group.

A reconciliation of external gross debt to gross debt can be found below:

	2019 £m	2018 £m
External gross debt	544.2	286.1
Lease liabilities relating to joint ventures	64.0	74.5
Gross debt	608.2	360.6

Net Cash

Net cash consists of cash and cash equivalents less loans and other borrowings (both current and non-current). Loans and other borrowings are measured as the net proceeds raised, adjusted to amortise any discount over the term of the debt.

Net cash is a measure of the Group's net indebtedness that provides an indicator of the overall balance sheet strength. It is also a single measure that can be used to assess the combined impact of the Group's cash position and its indebtedness. The use of the term "net cash" does not necessarily mean that the cash included in the net cash calculation is available to settle the liabilities included in this measure.

Net cash is considered to be an alternative performance measure as it is not defined in IFRS. The most directly comparable IFRS measure is the aggregate of loans and other borrowings (current and non-current) and cash and cash equivalents. A reconciliation of these measures to net cash can be found in note 4.5 to the consolidated financial statements.



Five Year Summary

	52 Weeks to 1 December 2019 £m	52 Weeks to 2 December 2018 £m	53 Weeks to 3 December 2017 £m	52 Weeks to 27 November 2016 £m	52 Weeks to 29 November 2015 £m
Trading weeks	52	52	53	52	52
Revenue	1,756.6	1,598.8	1,454.5	1,267.0	1,103.6
Gross profit	591.8	547.5	495.0	431.3	371.1
EBITDA®	43.3	59.5	76.7	80.3	77.5
Adjusted operating (loss)/profit ⁽¹⁾	(93.5)	(33.0)	4.1	17.9	15.1

(1) Adjusted to exclude exceptional items and share of results from joint ventures and associate.

	52 Weeks to 1 December 2019	52 Weeks to 2 December 2018	53 Weeks to 3 December 2017	52 Weeks to 27 November 2016	52 Weeks to 29 November 2015
Average orders per week	325,000	296,000	264,000	230,000	195,000
Average order size (£) ^{(2), (3)}	106.30	106.85	107.28	108.10	111.15
CFC efficiency (UPH) ⁽⁴⁾	168	163	164	160	155
DPU/week	196	194	182	176	166
Product waste (%)	0.7	0.8	0.7	0.7	0.7

(2) Refers to Ocado.com orders and includes standalone orders for Fetch.co.uk, Sizzle.co.uk and Fabled.com. This is after cancelled orders are deducted.

(3) Average order size excludes destination sites from 2014 onwards; prior to this, destination sites were not material.

(4) Mature CFC operations are defined as CFC1 and CFC2.

® See Alternative Performance Measures on pages 227 and 228.



Shareholder Information

Financial Calendar

19 March 2020	Q1 Trading Statement
6 May 2020	Annual General Meeting
7 July 2020	Half Year Results Announcement
15 September 2020	Q3 Trading Statement
10 December 2020	Q4 Trading Statement
9 February 2021	Final Results Announcement

Please note: all dates are provisional and subject to change.

Shareholding Information

Please contact our Registrar, Link Market Services, directly for all enquiries about your shareholding. Visit their website, www.ocadoshares.com, for online information about your shareholding (you will need your shareholder reference number which you can be found on your share certificate), or telephone the Registrar direct on +44 (0)345 608 1476. (Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open 9am to 5.30pm, Monday to Friday excluding public holidays in England and Wales.)

Fraud

Shareholders should be aware that they may be targeted by certain organisations offering unsolicited investment advice or the opportunity to buy or sell worthless or non-existent shares. Should you receive any unsolicited calls or documents to this effect, you are advised not to give out any personal details or to hand over any money without ensuring that the organisation is authorised by the UK Financial Conduct Authority (FCA) and doing further research.

If you are unsure or think you may have been targeted you should report the organisation to the FCA. For further information, please visit the FCA's website at www.fca.org.uk, email consumer.queries@fca.org.uk or call the FCA consumer helpline on 0800 111 6768 if calling from the UK or +44 20 7066 1000 if calling from outside the UK.

Forward-Looking Statements

Certain statements made in this Annual Report are forward-looking statements. Such statements are based on current expectations, forecasts and assumptions and are subject to a number of risks and uncertainties that could cause actual events or results to differ materially from any expected future events or results expressed or implied in these forward-looking statements.

They appear in a number of places throughout this Annual Report and include statements regarding the intentions, beliefs or current expectations of the Directors concerning, amongst other things, the Group's results of operations, financial condition, liquidity, prospects, growth, objectives, strategies and the business. Nothing in this Annual Report should be construed as a profit forecast.

All forward-looking statements in this Annual Report are made by the Directors in good faith based on the information and knowledge available to them as at the time of their approval of this Annual Report.

Persons receiving this report should not place undue reliance on forward-looking statements. Unless otherwise required by applicable law, regulation or accounting standard, the Group does not undertake any obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events, future developments or otherwise.

Company Information

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The Registry
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Company number:

07098618

Independent auditor:

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CBP002696

The paper is Carbon Balanced with World Land Trust, an international conservation charity, who offset carbon emissions through the purchase and preservation of high conservation value land.

Through protecting standing forests, under threat of clearance, carbon is locked in that would otherwise be released. These protected forests are then able to continue absorbing carbon from the atmosphere, referred to as REDD (Reduced Emissions from Deforestation and forest Degradation). This is now recognised as one of the most cost-effective and swiftest ways to arrest the rise in atmospheric CO₂ and global warming effects. Additional to the carbon benefits is the flora and fauna this land preserves, including a number of species identified at risk of extinction on the IUCN Red List of Threatened Species.



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