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GROUP

OCADO SOLUTIONS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE
52 WEEK PERIOD 3 DECEMBER 2018 TO 1 DECEMBER 2019
COMPANY NUMBER 04204963

Contents

Company information

Directors	Neill Abrams Luke Jensen Mark Richardson Tim Steiner Duncan Tatton-Brown
Company secretaries	Neill Abrams Robert Cooper
Company number	04204963
Registered office	Buildings One & Two Trident Place Mosquito Way Hatfield Hertfordshire AL10 9UL United Kingdom
Independent auditor	Deloitte LLP Statutory Auditor 1 New Street Square London EC4A 3HQ United Kingdom

Strategic Report

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

Principal activities

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

The Company's principal activities are offering the world's grocery retailers a unique, scalable, custom end-to-end e-commerce and fulfilment solution. The Company is building a platform that is expected to bring market leading efficiency with the best possible operational economics, consumer experience and service. The Company partners with grocery retailers that can become market leaders online, allowing the Company 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.

Financial review

For a typical Solutions arrangement, the recognition of revenue commences when a working solution is delivered to our partners, being the ability to fulfil online grocery orders. This is the point at which the customer starts to benefit from the services and is typically when a Customer Fulfilment Centre ("CFC") or Store Pick solution goes live. Prior to this, no revenue is recognised. The Company has contract liabilities of £146.9 million (2018: £66.5 million) at the balance sheet date in relation to upfront payments received from partners to undertake work such as the design and build of the end to end solutions prior to the recognition of revenue and planned outcomes being delivered.

The adoption of IFRS 15 in 2018 means that for the current Solutions arrangements, the Company will recognise losses in the early years due to the recognition of non-capitalised costs for these arrangements and no revenue recognised for the cash fees received.

During the year the Group signed two new partnerships in Asia Pacific. The 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 administrative costs but there was no associated revenue recorded in 2019, in accordance with IFRS 15. In the period to 1 December 2019 the Company made a loss before taxation of £21.3 million (2018: £4.4 million). Administrative expenses of £21.8 million (2018: £4.4 million) comprised mainly of net cost recharges £20.4 million (2018: £2.4 million) from other Ocado Group entities. The company has net liabilities of £23.7 million (2018: £4.5 million).

COVID-19

At the beginning of the COVID-19 outbreak in March 2020 retail demand increased significantly. The Group has adapted its platform rapidly in order to meet unprecedented demand, and is now delivering significantly more groceries to households than ever before. The Company has ramped up capacity significantly to support the unprecedented level of business Retail is doing. CFCs are running at their peaks and at their best ever efficiencies. Overall, the Group is delivering over 40% more groceries in the United Kingdom than before the effects of COVID-19 occurred.

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

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

Post year-end, the Group delivered the first international CFCs to our international partners Groupe Casino and Sobeys. Groupe Casino announced the go-live of its facility in March and Sobeys undertook a test launch of its facility in April with a roll-out planned once testing is complete. The fact that these facilities have been delivered on time during COVID-19 demonstrates the ability of the business to execute well even under the most challenging circumstances. Notwithstanding current restrictions on social distancing in the various markets where we operate, the Group are currently experiencing no material delays in the delivery of future CFCs for Ocado Solutions customers.

Future developments

As the shift of shopping channel continues to accelerate around the world, we remain well positioned to act as a market leader within online grocery. The deals signed in 2019 provide continued validation of our business model. We expect to do more deals in the medium term, in a number of regions. Climate change is not considered to be a principal risk.

Key performance indicators

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

	Period ended 1 December 2019	Period ended 2 December 2018	Variance %
Number of Ocado Solutions international partnerships signed to date	7	5	40.0

Principal risks and uncertainties

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

Risks	Mitigation Action/Control
Risk of 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	- 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 both in UK and internationally, including greater emphasis on graduate recruitment and training programmes. - Standardisation of platform delivery to improve repeatability.
Risk that 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	- 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 on-going 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 development.
Technological innovation supersedes our own and offers improved methods of food distribution to consumers.	- 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 changes in regulations impacting our business models or the viability of Ocado Solutions' deals.	- Regular monitoring of regulatory developments to ensure that changes are identified. - Some 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	- 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	- 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 is helping increase security and privacy internal controls. - 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.
Business interruption.	- 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 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.

Approved by the Board and signed on its behalf by:

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Duncan Tatton-Brown
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Duncan Tatton-Brown
Director
29 May 2020

Directors' Report

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

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

Neill Abrams
Luke Jensen
Mark Richardson
Tim Steiner
Duncan Tatton-Brown

Political contributions
The Company has not made any political donations during the period (2018: £nil).

Employee information
Other than its Directors, who are officers of the Company, the Company does not have any employees and accordingly does not have any disclosures required to be made concerning employees.

Directors' interests
The Directors' did not have beneficial interests in the shares of the Company at the end of the period. The Directors' beneficial interests in the shares of the ultimate parent company, Ocado Group plc, are disclosed in full in the annual report and financial statements of that company. Copies of those financial statements can be obtained from its registered office, which is Buildings One & Two, Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9UL, United Kingdom, or alternatively from its corporate website www.ocadogroup.com.

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

Research and development and future developments
No research and development is undertaken by this Company.

The Company's likely future developments including its strategy are described in the Strategic Report on pages 2 to 3.

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

Results and dividends
The Company's results for the period are set out in the Statement of Comprehensive Income on page 8. The Directors do not propose to pay a dividend for the period (2018: £nil).

Post balance sheet events
Any events occurring after the balance sheet date that affect the Company are disclosed in note 5.5 to the financial statements.

Statement of Directors' responsibilities

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business. See note 1.4 for more details.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to the auditor

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

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

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

Deloitte LLP have expressed their willingness to continue in office as auditor and appropriate arrangements have been put in place for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.

Approved by the Board of Directors and signed on its behalf by:

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Duncan Tatton-Brown
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Duncan Tatton-Brown
Director
29 May 2020

Independent Auditor's Report to the Member of Ocado Solutions Limited

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 1 December 2019 and of its loss for the 52 week period from 3 December 2018 to 1 December 2019;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

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

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Other Information

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

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

We have nothing to report in respect of these matters.

Responsibilities of directors

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

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

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

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

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

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

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

We have nothing to report in respect of these matters.

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

Mark Lee-Amies FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, UK
29 May 2020

Statement of Comprehensive Income
for the 52 week period ended 1 December 2019

	Notes	52 weeks ended 1 December 2019 £m	52 weeks ended 2 December 2018 £m
Revenue	2.2	0.5	0.1
Cost of sales		-	(0.1)
Gross profit		0.5	-
Administrative expenses		(21.8)	(4.4)
Operating loss	2.3	(21.3)	(4.4)
Loss before taxation	2.1	(21.3)	(4.4)
Taxation	2.5	1.8	-
Loss for the period and total comprehensive expense		(19.5)	(4.4)

All amounts are derived from continuing operations.

Balance Sheet
as at 1 December 2019

	Note	1 December 2019 £m	2 December 2018 £m
Non-current assets			
Deferred tax assets	2.5	1.8	-
Current assets			
Trade and other receivables	3.1	127.7	61.5
Cash and cash equivalents	3.2	2.3	4.7
		130.0	66.2
Total assets		131.8	66.2
Current liabilities			
Trade and other payables	3.3	(8.6)	(4.2)
Contract liabilities	3.4	(2.1)	(0.3)
		(10.7)	(4.5)
Net current assets		119.3	61.7
Non-current liabilities			
Contract liabilities	3.4	(144.8)	(66.2)
Net liabilities		(23.7)	(4.5)
Equity			
Share capital	4.1	-	-
Retained losses		(23.7)	(4.5)
Total deficit		(23.7)	(4.5)

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

DocuSigned by:
Duncan Tatton-Brown
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Duncan Tatton-Brown
Director
Ocado Solutions Limited
Company Registration Number 04204963 (England and Wales)
29 May 2020

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

	Share capital £m	Retained earnings £m	Total equity £m
Balance at 3 December 2017	-	(0.1)	(0.1)
Loss for the period and total comprehensive expense	-	(4.4)	(4.4)
Balance at 2 December 2018	-	(4.5)	(4.5)
Loss for the period and total comprehensive expense	-	(19.5)	(19.5)
Adjustments arising from Group restructuring[1]	-	0.4	0.4
Balance at 1 December 2019	-	(23.6)	(23.6)

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

Notes to the Financial Statements

Section 1 – Basis of preparation

1.1 General information
Ocado Solutions Limited (hereafter "the Company") is a private company limited by shares, and incorporated and domiciled in England and Wales. The address of its registered office is Buildings One & Two, Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9UL, United Kingdom. The financial period represents the 52 weeks ended 1 December 2019. The prior financial period represents the 52 weeks ended 2 December 2018.

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

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

The Company has taken advantage of the exemption under s400 of the Companies Act 2006 not to prepare consolidated financial statements, because it is included in the group accounts of Ocado Group plc. The group accounts of Ocado Group plc are available to the public and can be obtained as set out in note 5.6.

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

Where relevant, equivalent disclosures have been given in the consolidated financial statements of Ocado Group plc that can be obtained from its registered office as detailed in note 5.6.

New standards, amendments and interpretations issued that are not yet effective but have been adopted and are not material to the company:
In the current period, the Company has adopted IFRS 9 "Financial Instruments" for the first time. The new requirements for the classification and measurement of financial instruments, and for the impairment of financial assets have had an immaterial effect on the Company's financial statements.

In the current period, the Company has early adopted IFRS 16 "Leases" for the first time. Since the Company is not party to any lease arrangements, this standard has had no effect on the Company's financial statements.

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

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

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

Notes to the Financial Statements (continued)

Section 1 – Basis of preparation (continued)

1.2 Basis of preparation (continued)

Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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

1.3 Critical estimates, judgements and assumptions

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

Significant judgements

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.

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.

Recognition of deferred tax assets

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.

1.4 Going concern basis

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

After making appropriate enquiries and having considered the business activities as set out in the Strategic Report on page 2, the facts described above, the COVID-19 pandemic and the Company's principal risks and uncertainties, the Directors are satisfied that the Company and the Ocado Group as a whole have adequate resources to continue in operational existence for the foreseeable future. The Directors have received confirmation that Ocado Group plc will continue to support the company for a period of not less than 12 months form the date of approval of these financial statements. Accordingly, the financial statements have been prepared on the going concern basis.

Section 2 – Results for the period

2.1 Loss before taxation

Accounting policies

Revenue

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

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

Identification of the Performance Obligations

Each Solutions contract is considered on a case-by-case basis. A typical Solutions contract has a single performance obligation – "to enable the client to access the Ocado Smart Platform ("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. Consequently, designing the CFC or building the customer OSP is not a 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 their judgement to determine whether there are separable performance obligations that the customer is able to benefit from independently.

Determining the Transaction Price

At contract inception, the total transaction price is estimated, being the amount to which the Company 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.

Typically, 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. The judgements made for contract duration may be different than those judgements for expected customer life.

A Solutions contract often includes recurring fees, which are repeated on an annual basis throughout the contract, which are recognised over the contract duration and are included in the estimate of 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. The company determines that these variable amounts should be recognised in the period in which they arise, because they relate to the services provided in that period.

For each Solutions contract an assessment has been made by the Company 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 that any finance benefit is significant.

Allocation of Transaction Price to the Performance Obligations

Single component contracts have a single performance obligation and all the 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 Company to the decision that the most appropriate method of measuring the satisfaction of obligations should be on a straight-line time-elapsed basis.

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 Company 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.

Notes to the Financial Statements (continued)

Section 2 – Results for the period (continued)

2.1 Loss before taxation (continued)

Accounting policies (continued)

Contract modifications
The Company's contracts may be amended for changes in contract 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 Company'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 Company 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 need 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 use their 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.

Contract liabilities
The Company's customer contracts include a diverse range of payment schedules dependent upon the nature and type of goods and services being provided. The Company 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 Company has an unconditional right to payment, are greater than the revenue recognised at the period-end date, the Company recognises a contract liability. Where payments made are less than the revenue recognised at the period-end date, and the Company have an unconditional right to payment, the Company recognises accrued income for this difference.

Cost of sales
Cost of sales represents any associated licence fees, which are driven by the volume of sales of specific products or product groups, with adjustments to inventory and charges for transportation of goods from a supplier to a CFC.

2.2 Revenue
Revenue is generated wholly outside of the United Kingdom and from a single class of business, being the Company's principal activity as described in the Strategic Report on page 2.

2.3 Operating loss
Administrative expenses comprised mainly of net cost recharges from other Ocado Group entities. During the period, the Company obtained audit services from its auditor, Deloitte LLP, to the amount of £37,500 (2018: £17,700), relating to the audit of the Company's financial statements. The Company's auditor has not provided any non-audit services in the current or prior period.

2.4 Employee information
Except for its Directors, the Company does not have any employees. The Directors do not receive any remuneration for their services to the Company.

2.5 Taxation

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

Section 2 – Results for the period (continued)

2.5 Taxation (continued)

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

Deferred taxation
Deferred tax is recognised using the balance sheet liability method on temporary differences arising between the tax base of assets and liabilities and their carrying amount in the financial statements. No deferred tax is recognised if the temporary difference arises from the initial recognition of goodwill, or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Deferred tax is calculated at the tax rates that have been enacted or substantively enacted by the Balance Sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Recognition, therefore, involves judgement regarding the prudent forecasting of future taxable profits of the business and in applying an appropriate risk adjustment factor. The carrying value of deferred tax assets is reviewed at the each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. At the Balance Sheet date management has forecast that the Company would generate future taxable profits against which existing tax losses could be relieved. Deferred tax assets and liabilities are offset against each other when there is a legally enforceable right to offset current taxation assets against current taxation liabilities and it is the intention to settle these on a net basis.

Taxation – Income statement

	52 weeks ended 1 December 2019 £m	52 weeks ended 2 December 2018 £m
Current tax:		
UK Corporation Tax on loss for the period	-	-
Total current tax	-	-
Deferred tax:		
Changes in recoverable amounts of deferred tax assets	(1.8)	-
Total deferred tax	(1.8)	-
Income tax credit	(1.8)	-

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

	52 weeks ended 1 December 2019 £m	52 weeks ended 2 December 2018 £m
Loss before taxation	(21.3)	(4.4)
Effective tax charge at the UK tax rate of 19% (2018: 19%)	(4.0)	(0.8)
Effect of:		
Non-deductible items	0.2	
Group relief surrendered	2.0	0.8
Income tax credit	(1.8)	-

Notes to the Financial Statements (continued)

Section 2 – Results for the period (continued)

2.5 Taxation (continued)

Taxation – Balance sheet

Movement in the deferred tax asset is as follows:

	Tax losses £m	Total £m
Balance at 3 December 2017	-	-
Recognised through Income Statement	-	-
Balance at 2 December 2018	-	-
Effect of change in UK Corporation Tax rate		
Recognised through Income Statement	1.8	1.8
Balance at 1 December 2019	1.8	1.8

On 26 October 2015, the Finance (No.2) Act 2015 was substantively enacted and provided for a reduction in the main rate of corporation tax from 20% to 19% effective from 1 April 2017. On 6 September 2016, the Finance Act 2016 was substantively enacted and provided for a reduction in the main rate of UK corporation tax to 17% from 1 April 2020. In the March 2020 Budget the reduction in the corporation tax rate was withdrawn and it will now stay at 19%; the impact will be accounted for in the accounts for the 52 weeks ended 29 November 2020.

As at 1 December 2019 the Company had approximately £10.8 million of unutilised tax losses (2018: approximately £nil) available to offset against future profits. A deferred tax asset of £1.8 million (2018: £nil) has been recognised in respect of £10.8 million (2018: £nil) of such losses, the recovery of which is supported by the expected level of future profits of the Company as it is expected to be profit making in 2022. All tax losses, both recognised and unrecognised, can be carried forward indefinitely.

Section 3 — Operating assets and liabilities

3.1 Trade and other receivables

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

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

Provision for impairment of trade receivables

The Company 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 Company's historical credit losses, adjusted for reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Company 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.

	1 December 2019 £m	2 December 2018 £m
Trade receivables	7.9	0.3
Amounts due from group subsidiaries	119.8	60.5
Accrued income	-	0.7
	127.7	61.5

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

Notes to the Financial Statements (continued)

Section 3 — Operating assets and liabilities (continued)

3.2 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.

	1 December 2019 £m	2 December 2018 £m
Cash at bank and in hand	2.3	4.7

3.3 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.

	1 December 2019 £m	2 December 2018 £m
Amounts due to group subsidiaries	8.6	3.6
Accruals	-	0.6
	8.6	4.2

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

3.4 Contract liabilities

	1 December 2019 £m	2 December 2018 £m
Contract liabilities	146.9	66.5

Analysis of total contract liabilities:

	1 December 2019 £m	2 December 2018 £m
Current	2.1	0.3
Non-current	144.8	66.2
	146.9	66.5

The contract liabilities primarily relate to the advance consideration received from customers for Solutions contracts, for which revenue is recognised from the point at which the customer starts to benefit from the services and over the period the services are provided.

Significant changes in the contract liabilities balance during the period:

	1 December 2019 £m	2 December 2018 £m
At the beginning of the period	66.5	7.0
Increase due to cash received	80.9	59.6
Recognised as revenue	(0.5)	(0.1)
At the end of the period	146.9	66.5

Notes to the Financial Statements (continued)

Section 4 — Capital structure and financing costs

4.1 Share capital and reserves

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

The movements in the number of allotted, called up and fully paid ordinary shares and called up share capital are set out below:

	Ordinary shares number	Share capital £m
At 3 December 2017, 2 December 2018 and 1 December 2019	1	-

The share is fully paid and carries no right to fixed income. It has a nominal value of £1.

Section 5 – Other notes

5.1 Subsidiaries

The Company has investments in the following subsidiary undertakings:

Name	Principal activity	Proportion of share capital held	Country of incorporation
The following company is registered at Level 9, 63 Exhibition Street, Melbourne, VIC 3000:			
Ocado Solutions Australia Pty Limited	Business services	100%	Australia
The following company is registered at PO Box 997 Halifax, NS Canada, B3J 2X2:			
Ocado Solutions Canada Inc.	Business services	100%	Canada
The following company is registered at TMF Pôle, 3-5 rue Saint-Georges, 75009 Paris:			
Ocado Solutions France SAS	Business services	100%	France
The following company is registered at TMF Sweden, Sergels Torg 12, Stockholm:			
Ocado Solutions Sweden AB	Business services	100%	Sweden
The following company is registered at 12 Timber Creek Lane, Newark, Delaware 19711:			
Ocado Solutions USA Inc.	Business services	100%	United States of America

All subsidiaries are held directly by Ocado Solutions Limited and the class of shares being held are ordinary shares.

5.2 Related party transactions

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

5.3 Commitments

Capital commitments

Contracts placed for future capital expenditure but not provided for in the financial statements total £37.5 million (2018: £nil).

Of the total capital expenditure committed at the period end £37.5 million (2018: £nil) relates to property, plant and equipment, to new CFCs.

5.4 Contingent liabilities

Obligations under Solutions Contracts

In the construction phases of its Solutions contracts, the Company 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 Company's financial statements, and therefore are considered to be contingent liabilities.

At the end of the period, after considering the effects of the COVID-19 pandemic, management undertook a review of the agreed milestones within its Solutions contracts, and concluded that the possibility of not reaching them was remote. For details of how the Group has been affected by the COVID-19 pandemic, see the Strategic Report on page 2.

Claims and litigation

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

Notes to the Financial Statements (continued)

Section 5 – Other notes (continued)

5.5 Post balance sheet events
For details of how the Group has been affected by the COVID-19 pandemic, see the Strategic Report on page 2.

There have been no other events of note which have affected the Company since the Balance Sheet date.

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