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GROUP

OCADO INNOVATION LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE
52 WEEK PERIOD 3 DECEMBER 2018 TO 1 DECEMBER 2019
COMPANY NUMBER 08813912

Contents

Company Information

Directors	Neill Abrams Mark Richardson Tim Steiner Duncan Tatton-Brown Luke Jensen
Company secretary	Robert Cooper
Company number	08813912
Registered office	Buildings One and Two Trident Place Mosquito Way Hatfield Hertfordshire United Kingdom AL10 9UL
Independent auditor	Deloitte LLP Statutory Auditor 1 New Street Square London United Kingdom EC4A 3HQ

Strategic Report

The Directors present their strategic report of Ocado Innovation Limited (the "Company") for the 52 week period ended 1 December 2019.

Principal activities

The Company's principal activities are to provide certain services (the "Services") to the members of the Ocado Group and its customer, Wm Morrisons Supermarkets plc ("Morrisons").

The Company has service agreements with each other member of the Ocado Group. The Company provides technology services, through a license of the technology aspects of the online grocery fulfilment services to Ocado Retail Limited ("Retail", a member of the Ocado Group) (the "Ocado Smart Platform"). The Company also provides equivalent services to Morrisons and enables Ocado Solutions Limited to provide services to Solutions partners through the licensing of its Ocado Smart Platform ("OSP").

In addition, the Company provides Central IT Services to each member of the Ocado Group.

The Company conducts research and development activities to enhance the Morrisons and Ocado Smart Platform. It also owns the vast majority of the Ocado Group's intellectual property.

Financial review of the business

In the 52 week period to 1 December 2019 the Company generated revenue of £32.4 million (2018: £34.7 million), representing income from other Ocado Group entities for the use of the Company's intellectual property.

Administrative expenses of £128.3 million (2018: £90.6 million) comprised mainly net cost recharges of £80.4 million (2018: £57.2 million) from other Ocado Group entities and total amortisation and depreciation of £47.9 million (2018: £33.4 million). Within the £47.9 million is an impairment charge of £1.8 million (2018: £0.4 million) of existing intangible assets, following the development of more advanced proprietary software.

Net finance costs of £6.9 million (2018: £3.1 million) were incurred on balances held with other Ocado Group entities.

The Company has net assets of £120.6 million (2018: £163.4 million) as at the balance sheet date. Of the £616.1 million of assets (2018: £533.8 million), £491.6 million (2018: £448.9 million) relates to intangible assets, which comprises goodwill of £310.6 million (2018: £310.6 million) following the purchase of the technology function from Retail, internally generated assets of £153.6 million (2018: £118.5 million) relating to software which is utilised by the Ocado Group, and other intangibles of £27.4 million (2018: £19.8 million). Of the £479.3 million of liabilities held (2018: £361.5 million), £465.8 million (2018: £351.8 million) are amounts due to other Ocado Group companies.

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.

Ocado Group has also been supporting their partners. Morrison's are benefiting from additional capacity, and increased use of the Group's platform for in-store fulfilment allowing them to increase their online store pick capacity. 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.

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, of 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.

Key Performance Indicators (KPIs)

The Company's key performance indicator during the period is as follows:

	Period ended 1 December 2019 £m	Period ended 2 December 2018 £m	Variance %
EBITDA	(43.1)	(21.1)	(104.3%)

Strategic Report

Principal risks and uncertainties

We have identified the following principal risks and uncertainties facing the Company. These are considered by the Board to be material to the development, performance, position or future prospects of the Company. These risks and associated mitigations 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 of delays in the generation of new capacity in the UK	- 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
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 infringing a third party's Intellectual Property or failing to protect Ocado's own IP	- 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.
Risk of changes in regulations impacting our business 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 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 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.
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.
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.
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.

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 Innovation Limited (the "Company") for the 52 week period ended 1 December 2019.

Political contributions
No donations were made by the Company to any political party, organisation or candidate during the period (2018: nil).

Board of Directors
The following Directors served during the period:

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

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

Directors' insurance 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
Innovation is part of our DNA and with our investment to date, and our continuing research into areas such as artificial intelligence, robotics, automation and big data, we have an opportunity to create a sustainable technological advantage in an increasingly competitive market. With everything from websites to warehouses designed in-house, we have developed capabilities across a wide range of technologies.

Warehouse automation within our centralised Customer Fulfilment Centres (CFCs) is one of the key differentiators for Ocado in the online grocery retail market. We have completed the replatforming of our robotic ("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 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.

Future developments
Our innovations within the grocery and wider e-commerce space drive growth and create long-term shareholder value. We are confident in our ability to commercialise on this knowledge through our Solutions business and have now signed five international partners. Climate change is not considered to be a principal risk.

Risk management
The Company's risk management policies 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
Events occurring after the balance sheet date that affect the Company are disclosed in note 5.5 to the financial statements.

Directors' Report (continued)

Statement of Directors' responsibilities
The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial period. Under that law the Directors have prepared 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 enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

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

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

Approved by the Board and signed in its behalf by:

DocuSigned by:
Duncan Tatton-Brown
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Duncan Tatton-Brown
Director
29 May 2020

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

Report on the audit of the financial statements

Opinion
In our opinion the financial statements of Ocado Innovation 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 period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1.1 to 5.6.

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

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

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

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

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

We have nothing to report in respect of these matters.

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

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

We have nothing to report in respect of these matters.

Independent Auditor's Report to the Member of Ocado Innovation Limited (continued)

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

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

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

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

Report on other legal and regulatory requirements

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

- the information given in the strategic report and the directors' report for the financial 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, United Kingdom
29 May 2020

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

	Note	52 week period ended 1 December 2019 £m	52 week period ended 2 December 2018 £m
Revenue	2.2	32.4	34.7
Gross profit		32.4	34.7
Other operating income		4.9	1.4
Administrative expenses		(128.3)	(90.6)
Operating loss before exceptional items	2.3	(91.0)	(54.5)
Exceptional items	2.4	(3.8)	-
Operating loss		(94.8)	(54.5)
Finance income	4.2	2.1	2.7
Finance costs	4.2	(9.0)	(5.8)
Loss before taxation	2.1	(101.7)	(57.6)
Tax	2.6	2.8	(5.6)
Loss for the period and total comprehensive expense		(98.9)	(63.2)

All amounts are derived from continuing operations.

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

	Note	52 week period ended 1 December 2019 £m	52 week period ended 2 December 2018 £m
Operating loss		(94.8)	(54.5)
Adjustments for:			
Exceptional items	2.4	3.8	-
Depreciation of property, plant and equipment	3.2	9.1	6.7
Amortisation expense	3.1	36.9	26.3
Impairment of intangible assets	3.1	1.8	0.4
Impairment of property, plant and equipment	3.2	0.1	-
EBITDA		(43.1)	(21.1)

Balance Sheet
as at 1 December 2019

	Note	1 December 2019 £m	2 December 2018 £m
Non-current assets			
Intangible assets	3.1	491.6	448.9
Property, plant and equipment	3.2	90.3	70.6
Deferred tax asset	2.6	10.1	-
Investments	3.3	1.3	0.8
		593.3	520.3
Current assets			
Trade and other receivables	3.4	22.8	11.7
Cash and cash equivalents	3.5	-	1.8
		22.8	13.5
Total assets		616.1	533.8
Current liabilities			
Trade and other payables	3.6	(476.2)	(361.5)
Bank overdraft	3.7	(3.1)	-
		(479.3)	(361.5)
Net current liabilities		(456.5)	(348.0)
Non-current liabilities			
Deferred tax liability	2.6	(16.2)	(8.9)
		(16.2)	(8.9)
Net assets		120.6	163.4
Equity			
Share capital		-	-
Retained earnings		120.6	163.4
Total equity		120.6	163.4

The financial statements on pages 8 to 23 were authorised for issue by the Board of Directors and signed on its behalf by:

DocuSigned by:
Duncan Tatton-Brown
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Duncan Tatton-Brown
Director
Ocado Innovation Limited
Company Registration Number 08813912 (England and Wales)
29 May 2020

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

	Note	Share capital £m	Retained earnings £m	Total equity £m
Balance at 3 December 2017		-	226.2	226.2
Loss for the period and total comprehensive expense		-	(63.2)	(63.2)
Transactions with owners:				
- Capital contribution from parent	4.3		0.4	0.4
Balance at 2 December 2018		-	163.4	163.4
Loss for the period and total comprehensive expense		-	(98.9)	(98.9)
Adjustments arising from Group restructuring[1]			55.6	56.3
Transactions with owners:				
- Capital contribution from parent	4.3	-	0.5	0.5
Balance at 1 December 2019		-	120.6	120.6

[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 Innovation Limited (formerly Ocado Technology Limited) (hereafter "the Company") is a private company limited by shares, 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 Standard 101 'Reduced Disclosure Framework' ("FRS 101").

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

The Company has taken advantage of the exemption under s400 of the companies act to not prepare of 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, standards not yet effective, certain disclosures in respect of revenue from contracts with customers and certain related party transactions.

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

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

The Company has early adopted IFRS16 in the current period and has concluded that it does not have a significant impact on the Company's financial statements. IFRS16 "Leases" replaces IAS17 "Leases" and sets out the principles for the recognition, presentation and disclosure of leases and requires lessees to account for all leases under a single on-Balance-Sheet model. The Company does not have any operating leases and its finance leases are measured at the date of initial application of IFRS16 at the same amounts as under IAS17 immediately before the date of the initial application.

New standards, amendments and interpretations issued that are effective:

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.

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)

Accounting policies (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.

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

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

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. There are no key critical estimates affecting the company for the current financial period. Significant accounting policies and judgements are provided below:

Significant judgements
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 the Directors satisfy themselves that it is reasonable for them to conclude whether it is appropriate to prepare financial statements on a going concern basis. There has been no material uncertainty identified which would cast significant doubt upon the Company's ability to continue using the going concern basis of accounting for the twelve 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 from 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 the Company expects to be entitled to in return for delivering the goods or services to its customers. The value recognised in any period is based on judgement of when the customer is able to benefit from the goods or services and an assessment of the progress made towards completely satisfying each obligation.

Initial licence contract revenues are recognised over a term which is specific to individual customer contracts. For services, the term is usually the period over which services are rendered. For the licence of technology asset, revenue is recognised over a period consistent with the expected life of the related technology assets. Annual licence contract revenues, including associated service and operational fees, are recognised as income in the relevant period. Amounts received in advance for services are deferred and recognised as revenue over a term which is specific to individual customers.

Notes to the financial statements (continued)

Section 2 – Results for the period (continued)

2.1 Loss before taxation (continued)

Accounting policies (continued)

Administrative expenses

Administrative expenses consist of IT costs, employment costs of central 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 expenses relating to the Ocado Group's share schemes through recharges with other Ocado Group entities. The depreciation, amortisation and impairment associated with IT equipment, software, fixtures and fittings are also included.

2.2 Revenue

Revenue is generated wholly within the United Kingdom and from a single class of business, being the Company's principal activity of creating, developing and maintaining the intellectual property of the Ocado Group.

2.3 Operating loss

	Note	52 week period ended 1 December 2019 £m	52 week period ended 2 December 2018 £m
Operating loss is stated after charging the following:			
Amortisation expense	3.1	36.9	26.3
Impairment of intangibles, included in:			
- Administrative expenses	3.1	1.8	0.4
Depreciation of property, plant and equipment	3.2	9.2	6.7
Impairment of property, plant and equipment included in:			
- Administrative expenses	3.2	0.1	-

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

	52 week period ended 1 December 2019 £'000	52 week period ended 2 December 2018 £'000
Audit services		
-Fees payable to the auditor for the audit of the Company's financial statements	112.2	52.9

2.4 Exceptional items

	52 week period ended 1 December 2019 £m	52 week period ended 2 December 2018 £m
Andover CFC		
- Write off of intangible assets	2.0	-
- Write off of property, plant and equipment	1.2	-
Joint venture with Marks and Spencer ("M&S")	0.6	-
	3.8	-

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.

Intangible assets with a net book value of £2.0 million were written off as it was determined these costs were specific to the Andover location and infrastructure.

Property, plant and equipment with a net book value of £1.2 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.

Notes to the financial statements (continued)

Section 2 – Results for the period (continued)

2.4 Exceptional items (continued)

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.

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.

2.5 Employee information

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

2.6 Taxation

Accounting policies

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

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

Deferred taxation
Deferred tax is recognised using the balance sheet liability method on temporary differences arising between the tax base of assets and liabilities and their carrying amount in the financial statements. No deferred tax is recognised if the temporary difference arises from the initial recognition of goodwill, or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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.

Research and Development Expenditure Credit
The Company 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% 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.

During the year the Group claimed a credit of £4.2 million for the 52 weeks ended 1 December 2019 (2017: £4.1 million for the 52 weeks ended 3 December 2018).

Notes to the financial statements (continued)

Section 2 – Results for the period (continued)

2.6 Taxation (continued)

Taxation - Income statement

	52 week period ended 1 December 2019 £m	52 week period ended 2 December 2018 £m
Recognised in the income statement		
Deferred tax:		
Changes in recoverable amounts of deferred tax assets	(2.8)	5.6
Origination and reuse of temporary differences	-	-
Total deferred tax	(2.8)	5.6
Income tax charge for the period	(2.8)	5.6

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

	52 week period ended 1 December 2019 £m	52 week period ended 2 December 2018 £m
Loss before tax	(101.7)	(57.6)
Effective tax charge at the UK tax rate of 19% (2018: 19%)	(19.3)	(10.9)
Effect of:		
Non-taxable items	(4.0)	(5.9)
Group relief surrendered	18.4	2.0
Temporary differences on which no deferred tax recognised	3.0	20.7
Research and development expenditure credits	(0.9)	(0.3)
Income tax charge for the period	(2.8)	5.6

Taxation - Balance Sheet

Movement in the deferred tax asset is as follows:

	Tax losses carried forward £m
As at 3 December 2017	3.4
Effect of change in UK corporation tax rate	-
Recognised through the income statement	(3.4)
As at 2 December 2018	-
Effect of change in UK corporation tax rate	-
Recognised through the income statement	10.1
As at 1 December 2019	10.1

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 year ended 29 November 2020.

As at 1 December 2019 the Company had approximately £157.7 million of unutilised tax losses (2018: approximately £139.4 million) available for offset against future profits. A deferred tax asset of £10.1 (2018: £nil million) has been recognised in respect of £59m (2018: £nil million) of such losses, the recovery of which is supported by the expected level of future profits of the Group.

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.

Notes to the financial statements (continued)

Section 2 – Results for the period (continued)

2.6 Taxation (continued)

Movement in the deferred tax liability is as follows:

	Tax losses carried forward £m
As at 3 December 2017	(6.7)
Effect of change in UK corporation tax rate	-
Tax losses recognised through the income statement	(2.2)
As at 2 December 2018	(8.9)
Effect of change in UK corporation tax rate	-
Tax losses recognised through the income statement	(7.3)
As at 1 December 2019	(16.2)

For the period ended 1 December 2019 the Company has recognised a deferred tax liability of £16.2 million (2018: £8.9 million) 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 to 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.

Section 3 – Operating assets and liabilities

3.1 Intangible assets

Accounting policies

Intangible assets comprise internally generated assets relating mainly to computer software and other intangible assets relating mainly to externally acquired computer software and assets. 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 seven 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 on other intangible assets is calculated on a straight-line basis from the date on which they are brought into use, charged to administrative expenses, and is calculated based on the useful lives indicated below:

Internally generated assets 3–5 years, or the lease term if shorter
Other intangible assets 3–7 years, or the lease term if shorter

Amortisation periods and methods are reviewed annually and adjusted if appropriate.

The goodwill of £310.6m arose from purchase of technology function from Ocado Retail Limited (i.e. the tangible and intangible assets and other capabilities required to provide the Services). It is measured as the excess of consideration over the net of identifiable assets acquired and liabilities assumed, measured in accordance with IFRS 3 "Business Combinations", less accumulated impairments. The goodwill recognised has an indefinite useful life and is not amortised, but instead is subject to impairment testing on an annual basis or where there is any indication of impairment.

The value in use of acquired assets and liabilities is determined by discounting future cash flows to their present value. In reaching the value in use a number of estimates are applied.

Notes to the financial statements (continued)

Section 3 — Operating assets and liabilities (continued)

3.1 Intangible assets (continued)

Accounting policies (continued)

Cost capitalisation

The cost of internally generated assets are 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 determine whether the nature of the projects meet 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 year management have 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 to be used or monetised by the Company, the enhancement of existing warehouse and routing systems capabilities, or improvements to applications used by Ocado Group's customers. Other development costs that do not meet the above criteria are recognised as an expense 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 assess 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.

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 assess the capitalisation of these costs by consulting the guidance outlined in IAS 38 "Intangible Assets" and exercise 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 treat 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 assess each material internally generated asset addition and consider 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.

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 income statement. The useful life is determined by management at the time the software is acquired and brought into use and is regularly reviewed for appropriateness. For computer software licences, the useful life represents management's view of the expected period over which the Company will receive benefits from the software. For unique software products developed and controlled by the Company, the life is based on historical experience with similar products as well as anticipation of future events which may impact their useful life, such as changes in technology.

Notes to the financial statements (continued)

Section 3 — Operating assets and liabilities (continued)

3.1 Intangible assets (continued)

	Goodwill	Internally generated assets	Other intangible assets	Total intangible assets
	£m	£m	£m	£m
Cost				
At 2 December 2018	310.6	168.3	27.3	506.2
Additions	-	-	13.4	13.4
Internal development costs capitalised	-	70.0	-	70.0
Disposals	-	(0.1)	-	(0.1)
Impairment of Andover CFC	-	(3.3)	-	(3.3)
At 1 December 2019	310.6	234.9	40.7	586.2
Accumulated amortisation				
At 2 December 2018	-	(49.8)	(7.5)	(57.3)
Charge for the period	-	(32.3)	(4.6)	(36.9)
Impairment	-	(0.6)	(1.2)	(1.8)
Disposals	-	0.1	-	0.1
Impairment of Andover CFC	-	1.3	-	1.3
At 1 December 2019	-	(81.3)	(13.3)	(94.6)
Net book value				
At 2 December 2018	310.6	118.5	19.8	448.9
At 1 December 2019	310.6	153.6	27.4	491.6

The recoverable amount of goodwill has been determined based upon a value in use calculation. The value in use is established by discounting anticipated future cash flows attributable to the CGU that is expected to benefit from the corporate restructuring in which the goodwill arose. Pre-tax cash flow projections are based on the five year forecast model approved by management and extrapolated using the long-term average growth rate for the UK.

When applying the income-based methodology, a number of estimates and assumptions were used, including the Company's strategic plans, long term growth rates and its pre-tax discount rate. Management estimated the discount rate by using a pre-tax rate that reflected current market assessments of the time value of money and the risks specific to the Company. The Company prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next 4 years and extrapolates cash flows based on a nil growth rate, which does not exceed the long-term growth rate for the market. The pre-tax discount rate used to discount the forecast cash flows is 6.91%.

The assumptions used in arriving at the valuation were tested for reasonableness at the period-end and did not indicate an impairment to goodwill. Sensitivity analysis has been performed and even if the discount rate applied was to increase by 50%, an impairment would not need to be recognised.

For details of the impairment of the Andover CFC, please refer to note 2.4.

The net book value of computer software held under finance leases is analysed below:

	1 December 2019	2 December 2018
	£m	£m
Cost	2.1	2.1
Accumulated amortisation	(2.1)	(2.1)
Net book value	-	-

For the period ended 1 December 2019, internal development costs capitalised by the Company represented approximately 84% (2018: 91%) of expenditure on intangible assets and 62% (2018: 66%) of total capital spend including property, plant and equipment.

Notes to the financial statements (continued)

Section 3 — Operating assets and liabilities (continued)

3.2 Property, plant and equipment

Accounting policies

Property, plant and equipment
Property, plant and equipment excluding land are stated at cost less accumulated depreciation and any recognised impairment loss. Cost includes the original purchase price of the asset and any costs attributable to bringing the asset to its working condition for its intended use.

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.

Land is held at cost and not depreciated. Depreciation on other non-current assets is charged to both distribution costs and administrative expenses and is calculated based on the useful lives indicated below:

Fixtures and fittings	5-10 years
Plant and machinery	3-20 years

Capital work-in-progress is not depreciated until it is available for use.

Gains and losses on disposal are determined by comparing proceeds with the asset's carrying amount and are recognised within operating profit.

Property, plant and equipment excluding goodwill represents 29.6% (2018: 31.6%) of the total asset base of the Company in 2019. Therefore, the estimates and assumptions made to determine the carrying value of property, plant and equipment and related depreciation are important to the Company's financial position and performance. For more information on the Company's policy on capitalisation of borrowings costs, see Note 4.1.

Estimation of useful life

The charge in respect of periodic depreciation is derived by estimating an asset's expected useful life and the expected residual value at the end of its life. Increasing an asset's expected life or its residual value would result in a reduced depreciation charge in the income statement. The useful lives of the Company's assets are determined by management at the time the asset is acquired and reviewed at least annually for appropriateness. The lives are based on historical experience with similar assets as well as anticipation of future events which may impact their useful life, such as changes in technology.

Impairment of non-financial assets

An annual impairment review is performed and assets which do not have indefinite useful lives are subject to an annual depreciation or amortisation charge. Assets that are subject to an annual amortisation or depreciation charge are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. 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.

Given the Company's current operating structure the lowest level at which cash flows can reasonably be assessed is for the Company as a whole. The Company 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.

Notes to the financial statements (continued)

Section 3 — Operating assets and liabilities (continued)

3.2 Property, plant and equipment (continued)

	Fixtures, fittings, plant and machinery £m
Cost	
At 2 December 2018	88.9
Additions	30.1
Disposals	-
Impairment of Andover CFC	(1.7)
At 1 December 2019	117.3
Accumulated depreciation and impairment	
At 2 December 2018	(18.3)
Charge for the period	(9.1)
Impairment	(0.1)
Disposals	-
Impairment of Andover CFC	0.5
At 1 December 2019	(27.0)
Net book value	
At 2 December 2018	70.6
At 1 December 2019	90.3

Included within property, plant and equipment is capital work-in-progress for fixtures, fittings, plant and machinery of £22.2 million (2018: £6.5 million). For details on the impairment of the Andover CFC, please refer to note 2.4.

3.3 Investments

Accounting policies

Investments in group undertakings are valued at cost, less accumulated impairment.

	£m
At 2 December 2018	0.8
Additions	0.5
Disposals	-
At 1 December 2019	1.3

The Company has a 100% holding of Ocado Polska sp z.o.o., a technology company incorporated and registered in Poland, a 100% holding in Ocado Spain SLU, a technology company incorporated and registered in Spain, a 100% holding in Ocado Bulgaria EOOD, a technology company incorporated and registered in Bulgaria, a 100% holding in Oxford US LLC, a non-trading company incorporated and registered in the United States of America and a 100% holding in Ocado Sweden AB, a technology company incorporated and registered in Sweden. See note 5.1 for details

Notes to the financial statements (continued)

Section 3 — Operating assets and liabilities (continued)

3.4 Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Other receivables are non-interest bearing and are recognised initially at fair value, and subsequently at amortised cost, reduced by appropriate allowances for estimated irrecoverable amounts.

	1 December 2019 £m	2 December 2018 £m
Other receivables	5.8	3.1
Prepayments	2.9	3.5
Amounts due from group subsidiaries	14.1	5.1
	22.8	11.7

No security has been granted over trade and other receivables. The ageing of trade and other receivables (excluding prepayments) are categorised as not past due. There are no provisions for impairment of trade and other receivables.

Amounts owed by group undertakings are unsecured, interest bearing after 180 days at Base Rate + 5.5%, have no fixed date of repayment and are repayable on demand.

3.5 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks, short-term deposits with a maturity of three months or less at the balance sheet date and bank overdrafts. Bank overdrafts are repayable on demand and form an integral part of the Company's cash management. They are therefore included as a component of cash and cash equivalents.

	1 December 2019 £m	2 December 2018 £m
Cash and cash equivalents	-	1.8

3.6 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
Trade payables	0.6	1.8
Accruals and deferred income	9.8	7.9
Amounts due to group subsidiaries	465.8	351.8
	476.2	361.5

Amounts owed to group undertakings are unsecured, interest bearing after 180 days at Base Rate + 5.5%, have no fixed date of repayment and are repayable on demand.

3.7 Bank overdraft

	1 December 2019 £m	2 December 2018 £m
Bank overdraft	3.1	-

Notes to the financial statements (continued)

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 attributable 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 income statement over the period of the borrowings on the effective interest rate basis.

Leased assets

The Company has early adopted IFRS16 in the current period. IFRS16 "Leases" replaces IAS17 "Leases" and sets out the principles for the recognition, presentation and disclosure of leases and requires lessees to account for all leases under a single on-Balance-Sheet model. The Company does not have any operating leases and its finance leases relating to buildings are measured at the date of initial application of IFRS16 at the same amounts as under IAS17 immediately before the date of the initial application.

The Company considers whether any contract is, or contains, a lease. At the lease commencement date, the Company recognises a right-of-use asset and a lease liability on the Balance Sheet.

The Company measures the lease liability at the present value of the lease payments that have not been paid at that date, discounted using the interest rate implicit in the lease (if that rate is readily available) or the 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 application of IFRS16 has not had any impact on the value of the Company's assets or liabilities.

4.2 Finance income and costs

Accounting policy

Interest income is accounted for on an accruals basis using the effective interest method. Finance costs comprise interest on balances due to group undertakings and are recognised in the period in which they fall due.

	52 week period ended 1 December 2019 £m	52 week period ended 2 December 2018 £m
Interest on balances due from group undertakings	2.1	2.7
Finance income	**2.1**	**2.7**
Interest on balances due to group undertakings	(9.0)	(5.8)
Finance costs	**(9.0)**	**(5.8)**
Net finance costs	**(6.9)**	**(3.1)**

4.3 Share capital and reserves

The issued and fully paid up share capital is set out below:

	Ordinary shares Number	Share Capital £m
At 2 December 2018 and 1 December 2019	1	-

All shares are fully paid, have equal voting rights and carry no right to fixed income. Each of the shares has a nominal value of £1.

Notes to the financial statements (continued)

Section 5 – Other notes

5.1 Subsidiaries

Name	Principal activity	Proportion of share capital held	Country of incorporation
The following company is registered at ul. Rakowicka 7, 31-511, Krakow, Poland:			
Ocado Polska Sp. z.o.o	Technology	100%	Poland
The following company is registered at Av. Josep Tarradellas 38, Planta 8a, 08029, Barcelona, Spain:			
Ocado Spain S.L.U.	Technology	100%	Spain
The following company is registered at 1209 Orange Street, Wilmington, Delaware 19801, United States of America:			
Oxford US LLC	Non-trading company	100%	United States of America
The following company is registered at 17 Henrik Ibsen Street, Lozenets District, Sofia 1407, Bulgaria:			
Ocado Bulgaria EOOD	Technology	100%	Bulgaria
The following company is registered at Drottning Kristinas Vag 53,114 28, Stockholm, Sweden:			
Ocado Sweden AB	Technology	100%	Sweden

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

5.2 Commitments

Capital commitments

Contracts placed for future capital expenditure but not provided for in the financial statements are property, plant and equipment technology-related projects and at period end amounted to £1.3 million (2018: £nil).

5.3 Contingent liabilities

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

5.4 Related party transactions

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

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 immediate and ultimate parent undertaking and controlling party is Ocado Group plc, a company incorporated in the United Kingdom. Ocado Group plc is the parent undertaking of the largest and smallest group of undertakings to consolidate these financial statements at 1 December 2019. The address of the smallest and largest undertaking's registered office is the same and is disclosed in the Directors' Report.

The consolidated financial statements of Ocado Group plc can be obtained from Buildings One & Two, Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9UL, United Kingdom, or alternatively from its corporate website www.ocadogroup.com.