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OCADO INNOVATION LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE 52-WEEK PERIOD FROM 2 DECEMBER 2019 TO 29 NOVEMBER 2020
COMPANY NUMBER 08813912

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Contents

Company Information

Directors	Neill Abrams Stephen Daintith Luke Jensen Mark Richardson Timothy Steiner
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 EC4A 3HQ United Kingdom

Strategic Report

The Directors present their strategic report of Ocado Innovation Limited ("the Company") for the 52 week period ended 29 November 2020.

Principal activities

The Company's principal activities are to provide technology services ("the Services") through a license of the technology aspects of the online grocery fulfilment services, to the members of the Ocado Group ("the Group") including Ocado Retail Limited ("Retail"), and the Group's customer, Wm Morrisons Supermarkets plc ("Morrisons"). It owns the vast majority of the Ocado Group's intellectual property.

The Company has service agreements with each other member of the Ocado Group, which 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 platform used by all partners.

Financial review of the business

In the 52 week period to 29 November 2020 the Company generated revenue of £21.2 million (2019: £32.4 million), representing income from other Ocado Group entities for the use of the Company's intellectual property. Revenue has fallen in the year principally as a result of changes to Group recharging processes with Retail.

Administrative expenses of £189.4 million (2019: £128.3 million) comprises mainly net cost recharges of £125.4 million (2019: £80.4 million) from other Ocado Group entities and total amortisation, depreciation and impairment of £64.0 million (2019: £47.9 million). Within the £64.0 million is an impairment charge of £3.3 million (2019: £1.8 million) of existing intangible assets, following the development of more advanced proprietary software and £1.4 million (2019: £0.1 million) impairment of property, plant and equipment.

Exceptional costs comprise the £310.6 million impairment of goodwill which is detailed in note 3.1. There was no impairment of goodwill in 2019 but exceptional costs of £3.8 million were recognised, which primarily related to the Andover fire. The impairment of goodwill has been recognised because the Company is loss making, and has negative projected future cash flows. The indicators of impairment were not present in 2019. Recharging arrangements across the Ocado Group which existed in 2019 have changed in 2020, partly as a result of the part disposal of Retail to M&S.

Net finance costs of £11.4 million (2019: £6.9 million) were incurred on balances held with other Ocado Group entities. The Company made a net loss of £498.0 million in the period (2019: £98.9 million).

The Company has net liabilities of £376.7 million (2019: £120.6 million net assets) as at the balance sheet date. Of the £387.7 million of assets (2019: £616.1 million), £233.6 million (2019: £491.6 million) relates to intangible assets, which comprises internally generated assets of £198.7 million (2019: £153.6 million) relating to software which is utilised by the Ocado Group, and other intangibles of £34.9 million (2019: £27.4 million). Goodwill of £310.6 million (2019: £nil) has been written off in the year. Of the £745.1 million of current liabilities held (2019: £479.3 million), £730.0 million (2019: £465.8 million) are amounts due to other Ocado Group companies.

Covid-19

At the beginning of the Covid-19 outbreak 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. The Directors have reviewed the potential impact of Covid-19 and are of the opinion that there is unlikely to be an adverse impact to the Company. The Company's risk of being adversely impacted by Covid-19 are reduced, as it does not trade with external partners, and trades in an intercompany capacity with Ocado Retail Limited whose business has grown significantly through the pandemic. Unlike its effect on many other businesses, Covid-19 has increased customers' demand for the Group's services, and this demand looks set to continue both in the short term and through the longer-term trend toward online retail.

Strategic Report (continued)

Key Performance Indicators (KPIs)

The Company assesses its performance using a variety of key performance measures, which are not defined under IFRS and are therefore termed "non-GAAP" measures. These measures provide additional useful information on the underlying trends, performance and position of the Company. The main key performance indicator is EBITDA, as this demonstrates underlying trading activity before a number of accounting adjustments. A review of EBITDA is presented below:

	Period ended 29 November 2020 £m	Period ended 1 December 2019 £m	**Variance %**
EBITDA	**(100.7)**	(43.1)	**(133.6%)**

EBITDA has fallen in the year primarily due a greater operating loss, which is the product of lower revenues and greater admin expenses, and the absence of Andover exceptional costs.

Principal risks and uncertainties

Ocado Innovation Limited provides technology services for grocery fulfilment and holds the majority of the IP for the Group, therefore the principal risks and uncertainties disclosed on page 64 to 67 of the Annual Report are applicable to the Company. We have highlighted the ones below which we feel are most applicable.

Risks	**Mitigating actions/controls**
Risk of the transformation programme failing to deliver a sustainable operational infrastructure able to execute effectively the requirements for multiple Ocado 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 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.
Risks associated with on-going Covid 19 related disruptions	- Implementing rapid-response Coronavirus tests for frontline Group employees - Following government guidance by closing our offices and introducing home working - Introducing distancing and hygiene measures in CFCs, vehicles, spokes and construction sites - Engaging with government and specialist advisors - Instigating business continuity plans and regular monitoring

Strategic Report (continued)

Section 172 (1) Statement

This section comprises our Section 172 (1) Statement and should be read in conjunction with the strategic report on pages 2 and 3.
The directors of Ocado Innovation Limited (the "Company") take their statutory duties seriously. The directors of the Company have specific training on their duties and responsibilities, including their responsibility to promote the success of the Company in accordance with s172 of the Companies Act 2006. The Company is wholly-owned subsidiary of Ocado Group plc and its governance and operating practices are aligned with the Group.
The Board of Directors confirm that during the year under review, it has acted to promote the long-term success of the Company for the benefit of shareholders, whilst having due regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006, being:

a. The likely consequences of any decision in the long term.
b. The interests of employees. The Company has no employees, but its subsidiary companies do have employees who enable the business to deliver its strategy.
c. The need to foster the Company's business relationships with suppliers, customers and others.
d. The impact of the Company's operations on the community and the environment.
e. The desirability of the Company maintaining a reputation for high standards of business conduct.
f. The need to act fairly between members of the Company.

The Board recognises its responsibilities to engage with and incorporate the views of key stakeholders in strategic planning and decision-making, and the importance of stakeholder trust in building resilience and long-term sustainability. The induction of new directors includes appropriate training on the director duties of section 172 and the role of stakeholder engagement. The Company's key stakeholder groups are its Partners and Society and Community. Below is set out the value of the stakeholders to the Company, the issues that matter most to our People as stakeholders and how we engage with them. The Company has no direct employees, but it is the parent of overseas entities in Poland, Spain and Bulgaria which have employees. The Company has no direct partners, but it is the parent of overseas entities which have partners. As such disclosure consistent with the Group Annual Report has been made in relation to people, partners, society and community.

People

Why we value them

Our people bring a diverse range of experience, expertise and perspectives that contribute to the values and culture of Ocado and are essential for the delivery of our strategic objectives. It is vital for Ocado's continued success that we maintain an environment where our people feel valued, motivated, and able to thrive.

What matters to them

- An inclusive and diverse working environment.
- Opportunities for career and personal development.
- Having a voice.
- A safe and secure workplace
- Good pay and benefits.
- Working for a company that is fair, treats people well and that they can be proud of.

How the Group engages with its People

- Various methods are used to communicate to all employees, including Fuse, our company intranet system, which provides a range of useful information for employees and updates on the performance of the Company and other business matters, and Ocado Connections, the twice monthly People newsletter.
- This year there has been a strong focus on mental health and diversity and inclusion. To support employee mental health our Mind Yourself campaign launched this year and a newly created role, Global Head of Culture and Engagement, is focused on how to support our people. A new Diversity & Inclusion Manager role has also been created and diversity and inclusion events have been held across the year. We have in place five inclusion committees for LGBTQ+, gender, mental health, ethnic minorities and disability.
- Our new employee engagement platform, Peakon, introduced this year, enables the Company to continuously gather employee feedback and take more timely, responsive and focused action.
- The Speak Up whistle-blowing hotline allows employees to confidentially raise any concerns or issues.
- Our employee representative body, Ocado Council, provides a voice to employees. This is now being transitioned into a new framework to better represent our growing business.
- The Designated Non-Executive Director attends Ocado Council meetings to answer questions and listen to employee feedback and then reports back to the full Board.
- CEO Tim Steiner provides regular live stream updates on the business, with other Executive Directors in attendance who also contribute, which also provides all employees the opportunity to submit questions to be answered during the update.
- All significant new policies are considered by the Board, notably the approval this year of the new Ocado Code of Conduct.

- Update reports at each Board meeting on people matters including culture, diversity, talent and engagement.
- Regular updates to the Board on health and safety matters. This year regular updates were given and discussions undertaken on the introduction of measures to protect employee health in light of Covid-19.

Partners

Why we value them
Building trusted partnerships through ongoing dialogue and shared learnings helps us to better understand the needs of our partners and to develop and improve our offering to continue to provide cutting-edge solutions.

What matters to them;

- Innovation.
- A flexible offering of potential options for fulfilment.
- Product development.
- Quality and financial performance.
- Supply chain management.
- Building a long-term relationship.

How the Group engages with Partners

- Direct engagement with senior management, procurement managers and commodity managers and broader engagement in operations across the business as relationships with our partners develop and the global CFCs are becoming operational.
- Corporate responsibility and ethics reporting.
- Setting KPIs and providing feedback during ongoing projects.
- Bring together representatives from all our global partners as part of the OSP Leadership Club to work collaboratively and discuss experiences of shared importance, and build our understanding of partners' needs.
- Work with our partners on press releases and updates on projects undertaken.
- Regular Executive Director engagement with the senior executives of partners, including quarterly executive leadership meetings between all global partners.
- Board review and approval of any significant partnerships or orders by current partners
- Update reports at each Board meeting.

Suppliers

Why we value them
A strong supply chain is critical to our business as we rely on our suppliers to be able to meet the needs of our partners and ensure that we can meet our shared targets for growth and development across our network.

What matters to them:

- Building a long-term relationship.
- Success and growth of Ocado's business.
- Fair trade.
- Social and ethical impact.
- Equitable supply chain practices and anti-bribery and corruption policies in place.
- Ability to collaborate.
- Prompt and accurate payment.

How the Company engages with Suppliers
- Our onboarding process provides two-way communication to build relationships with our suppliers, and through auditing across our chains we can ensure that high standards are maintained.
- We are currently developing a supplier onboarding manual to help suppliers understand and meet Ocado's required standards.
- Direct engagement with the senior executives of suppliers by our Executive Directors and regular contact with suppliers from our procurement manager provides an ongoing dialogue to address any issues or potential issues. During the height of the Covid-19, Ocado provided letters to suppliers to confirm to their regulators the need to keep operating to supply Ocado as a key business during the pandemic.
- Corporate responsibilities and ethics reporting.
- Review and approval of significant orders by the Board.

Strategic Report (continued)

Society and Community

Why we value them

Making a meaningful contribution to the wider society enables us to create stronger communities and have a positive environmental and social impact. Engagement with non-governmental organisations and community groups helps us to understand our impact on the wider society and the ways in which we can work together to make a valuable difference.

What matters to them

- Environmental and social issues, including climate change, carbon emissions, food and road safety, `human rights, waste management, and recycling.
- Legal and regulatory compliance of the business.
- Responsible sourcing and procurement practices.
- Having a positive impact on the community.
- Environmental and socially responsible business practices and credentials.

How the Group engages with Society and Community

• Direct engagement locally with MPs, councils and community groups.
• Environmental and social reporting on our website, including corporate responsibility, modern slavery, gender pay and carbon emissions.
• As part of Ocado's ongoing free coding education resource for teachers, Code for Life, we opened up Rapid Router, free education resources that teach children aged 6-13 coding and programming at home, to the wider community.
• Philanthropy and employee-matched funding for charity policy.
• Environmental and social issues update reports at Board meetings.
• Oversight by the Board of corporate responsibility plans and reporting, including the review and approval of key corporate statements.

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, forms "the Group".

Approved by the Board and signed on its behalf by:

Neill Abrams

Neill Abrams
Director
Ocado Innovation Limited
Company number: 08813912 (England and Wales)
26 August 2021

Directors' Report

The Directors present their report and the audited financial statements of Ocado Innovation Limited ("the Company") for the 52 week period ended 29 November 2020.

Board of Directors

The following Directors served during the period:

Neill Abrams	
Stephen Daintith	(appointed on 22 March 2021)
Luke Jensen	
Mark Richardson	
Timothy Steiner	
Duncan Tatton-Brown	(resigned on 22 November 2020)

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. The interests of the Company's employees and the need to foster the Company's business relationships with suppliers, customers and others are included within the Strategic Report as permitted by s414C (11) of the Companies Act 2006.

Directors' interests

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

Directors' insurance and indemnities

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

Going concern

The Company's financial statements have been prepared on the going concern basis and are disclosed in note 1.4 to the financial statements. The Company made a loss of £498.0 million in the year and has net liabilities of £376.7 million at the balance sheet date. £310.6 million of this loss relates to internally generated goodwill which has been written off in the year as it is deemed irrecoverable (see note 3.1). The Directors have received confirmation, through a legally binding letter of support, from Ocado Group plc stating that it will continue to support the Company for a period of not less than 12 months from the date of approval of these financial statements.

Results and dividends

The Company's results for the period are set out in the statement of comprehensive income on page 11. The Directors do not propose to pay a dividend for the period (2019: £nil).

Risk management

The Company's risk management policies are summarised in the principal risks and uncertainties section of the Strategic Report.

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 substantial 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.

We completed the re-engineering of our bot and commissioned the next generation of our mini-CFC site in Bristol, UK in late 2020. The re-engineered bot is protected by a suite of registered and unregistered IP rights, thereby ensuring the learnings from our previous generation bots continue to be exclusively available to Ocado partner companies.

Directors' Report (continued)

In November 2020 the Group announced the acquisition of two robotic picking companies, completed after year-end. As a result, the Group has acquired intellectual assets that will complement and expand on the existing robotic picking proprietary knowledge and competencies. To support continued, rapid, innovation the Group has significantly increased the numbers of people working in those specialised innovating teams focused on deploying our technology or knowhow towards medium to long term opportunities for value creation.

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.

Political contributions

No donations were made by the Company to any political party, organisation or candidate during the period (2019: nil).

Post-Balance Sheet events

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

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Strategic Report, 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), including FRS 101 "Reduced Disclosure Framework". 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 Section 418 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:
Neill Abrams
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Neill Abrams
Director
Ocado Innovation Limited
Company number: 08813912 (England and Wales)

26 August 2021

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 29 November 2020 and of its loss for the 52-week period from 2 December 2019 to 29 November 2020;
- 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 1.1 to 5.5 to the financial statements.

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 United Kingdom, 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.

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;
- The financial statements are not in agreement with the accounting records and returns;
- 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 its members as a body, for our audit work, for this Report, or for the opinions we have formed.

Stephen Turner

Stephen Turner FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
27 August 2021

Statement of Comprehensive Income
for the 52 week period ended 29 November 2020

	Note	52 week period ended 29 November 2020	52 week period ended 1 December 2019
		£m	£m
Revenue	2.2	**21.2**	32.4
Gross profit		**21.2**	32.4
Other operating income		**3.5**	4.9
Administrative expenses		**(189.4)**	(128.3)
Operating loss before exceptional items	2.3	**(164.7)**	(91.0)
Exceptional items	2.4	**(310.6)**	(3.8)
Operating loss		**(475.3)**	(94.8)
Finance income	4.2	**2.6**	2.1
Finance costs	4.2	**(14.0)**	(9.0)
Loss before tax	2.1	**(486.7)**	(101.7)
Tax	2.6	**(11.3)**	2.8
Loss for the period and total comprehensive expense		**(498.0)**	(98.9)

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 29 November 2020	52 week period ended 1 December 2019
		£m	£m
Operating loss		**(475.3)**	(94.8)
Adjustments for			
Exceptional items	2.4	**310.6**	3.8
Depreciation of property, plant and equipment	3.2	**10.8**	9.1
Amortisation expense	3.1	**48.5**	36.9
Impairment of intangible assets	3.1	**3.3**	1.8
Impairment of property, plant and equipment	3.2	**1.4**	0.1
EBITDA		**(100.7)**	(43.1)

Balance Sheet
as at 29 November 2020

	Note	29 November 2020 £m	1 December 2019 £m
Non-current assets			
Intangible assets	3.1	**233.6**	491.6
Property, plant and equipment	3.2	**119.1**	90.3
Deferred tax asset	2.6	**1.9**	10.1
Investment in subsidiaries	3.3	**2.0**	1.3
		356.6	593.3
Current assets			
Other financial assets		**3.1**	-
Other receivables	3.4	**25.1**	22.8
Cash and cash equivalents	3.5	**2.9**	-
		31.1	22.8
Total assets		**387.7**	616.1
Current liabilities			
Other payables	3.6	**(745.1)**	(476.2)
Bank overdraft		-	(3.1)
		(745.1)	(479.3)
Net current liabilities		**(714.0)**	(456.5)
Non-current liabilities			
Deferred tax liability	2.6	**(19.3)**	(16.2)
		(19.3)	(16.2)
Net (liabilities)/assets		**(376.7)**	120.6
Equity			
Share capital		-	-
Capital contribution reserve		**1.2**	0.5
Retained earnings		**(377.9)**	120.1
Total shareholder's (deficit)/equity		**(376.7)**	120.6

The financial statements on pages 11 to 26 were authorised for issue by the Board of Directors and signed on its behalf by:

DocuSigned by:
Neill Abrams
FF2E4358A89B487

Neill Abrams
Director
Ocado Innovation Limited
Company Registration Number 08813912 (England and Wales)

Date: 26 August 2021

Statement of Changes in Equity
for the 52 week period ended 29 November 2020

	Note	Share capital £m	Retained earnings £m	Capital contribution £m	Total equity £m
Balance at 3 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		55.6
Transactions with owners					
- Capital contribution from parent				0.5	0.5
Balance at 1 December 2019		-	120.1	0.5	120.6
Loss for the period and total comprehensive expense		-	**(498.0)**		**(498.0)**
Transactions with owners					
- Capital contribution from parent		-		**0.7**	**0.7**
Balance at 29 November 2020		-	**(377.9)**	**1.2**	**(376.7)**

[1] In August 2019, Ocado Holdings Limited sold 50.0% of its interest in Ocado Retail Limited to Marks and Spencer Group plc. As part of the Group's 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 eamings.

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, incorporated in England and Wales under the Companies Act 2006 (company number: 08813912). The address of its registered office is Buildings One & Two, Trident Place, Mosquito Way, Hatfield, Hertfordshire, United Kingdom, AL10 9UL. The financial period represents the 52 weeks ended 29 November 2020. The previous financial period represents the 52 weeks ended 1 December 2019. The principal activity of the Company is described in the Strategic Report.

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 pounds 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 Section 400 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 5.5.

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 5.5.

New standards, amendments and interpretations adopted by the Company

In the current period, the Company has not adopted any new standards, but in the prior period, IFRS 9 "Financial Instruments" and IFRS 16 "Leases" were adopted for the first time.

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 2 December 2019, and concluded that they are either not relevant to the Company or that they would not have a significant effect on the Company's financial statements:

		Effective date
IAS 19	Employee Benefits (amendments)	1 January 2019
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
IAS 28	Long term interests in associates and joint ventures (amendments)	1 January 2019
IFRS 9	Financial Assets (amendments)	1 January 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	1 January 2019

Adoption of the new standards and interpretations has no material impact on the Company's financial position or related performance.

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)

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.

Impairment of Goodwill

Goodwill on the Company's balance sheet which was acquired as part of a business combination is tested annually for impairment in line with the requirements of IAS 36:10 (b). The accounting policy has been detailed in note 3.1. The full goodwill balance has been impaired in the period following management's review of indicators of impairment.

1.4 Going concern basis

Accounting standards require that Directors satisfy themselves that it is reasonable for them to conclude on whether or not it is appropriate to prepare financial statements on the going concern basis. There has been no material uncertainty identified which would cast significant doubt upon the Company's ability to continue using the going concern basis of accounting for the 12 months following the approval of these financial statements.

This Company made a loss in the year of £498.0 million and has net liabilities of £376.7 million at the balance sheet date. The Directors have received confirmation, through a legally binding letter of support, from Ocado Group plc stating that it will continue to support the Company for a period of not less than 12 months from date of approval of these financial statements. The impairment of goodwill does not impact the Company's ability to continue to support the overall group strategy. 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. Accordingly, the financial statements have been prepared on the going concern basis.

Section 2 – Results for the period

2.1 Loss before taxation

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.

Notes to the financial statements (continued)

Section 2 – Results for the period (continued)

2.2 Revenue

During the period the Company generated revenue of £21.2 million (2019: £32.4 million). 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 and recharging this to other Group companies.

2.3 Operating loss

	Note	52 week period ended 29 November 2020 £m	52 week period ended 1 December 2019 £m
Operating loss is stated after charging the following			
Amortisation expense	3.1	**48.5**	36.9
Impairment of intangibles, included in			
- Administrative expenses	3.1	**313.9**	1.8
Depreciation of property, plant and equipment	3.2	**10.8**	9.2
Impairment of property, plant and equipment included in			
- Administrative expenses	3.2	**1.4**	0.1

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

	52 week period ended 29 November 2020 £'000	52 week period ended 1 December 2019 £'000
Audit services		
-Fees payable to the auditor for the audit of the Company's financial statements	**152,500**	112.2

During the period, the Company obtained audit services from its auditor, Deloitte LLP, to the amount of £152,500 (2019: £112,500). These costs have been borne by Ocado Central Services Ltd and are not rechargeable. The Company's auditor has not provided any non-audit services in the current or prior periods.

2.4 Exceptional items

	52 week period ended 29 November 2020 £m	52 week period ended 1 December 2019 £m
Impairment of goodwill	310.6	-
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
	310.6	3.8

Section 2 – Results for the period (continued)

2.4 Exceptional items (continued)

Impairment of goodwill
Following management's review of indicators of impairment, the full goodwill balance has been impaired in the year and recognised as an exceptional cost. See note 3.1 for further details.

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 £nil million (2019: £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 £nil million (2019: £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.

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 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 risk-adjusted 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 each reporting 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 reporting date, Management has forecasted that the Company will generate future taxable profits against which existing tax losses can be relieved.

Deferred tax assets and liabilities are offset against each other when there is a legally-enforceable right to offset current tax assets against current tax liabilities and it is the intention to settle these on a net basis.

Deferred tax is calculated at the tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Notes to the financial statements (continued)

Section 2 – Results for the period (continued)

2.6 Taxation (continued)

Research and Development Expenditure Credit

The Company takes advantage of the incentives offered under the United Kingdom's Research and Development Expenditure Credit ("RDEC") regime to claim a credit for the Company's significant expenditure on qualifying research and development. As enacted in the Finance Act 2020, the credit due to the Company is equal to 13.0% (2019: 12.0%) of the Company's qualifying expenditure. The Company continues to utilise the additional benefits from the scheme in light of the Company's commitment to its innovative technology and software.

During the period the Company claimed a credit of £4.7 million, within other income, for the 52 weeks ended 29 November 2020 (2019: £4.2 million for the 52 weeks ended 1 December 2019).

Taxation - Income statement

	52 week period ended 29 November 2020 £m	52 week period ended 1 December 2019 £m
Recognised in the income statement		
Deferred tax		
Changes in recoverable amounts of deferred tax assets	10.6	(2.8)
Effect of change in rate of United Kingdom Corporation Tax	0.7	-
Total deferred tax	**11.3**	(2.8)
Income tax charge for the period	**11.3**	(2.8)

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 29 November 2020 £m	52 week period ended 1 December 2019 £m
Loss before tax	**(486.7)**	(101.7)
Effective tax charge at the UK tax rate of 19% (2019 19%)	**(92.5)**	(19.3)
Effect of		
Non-taxable items	**54.5**	(8.9)
Group relief surrendered	**15.1**	18.4
Temporary differences on which no deferred tax recognised	**18.8**	3.0
Losses arising in period on which no deferred tax is recognised	**16.1**	4.9
Research and development expenditure credits	**(0.7)**	(0.9)
Income tax charge for the period	**11.3**	(2.8)

Taxation - Balance Sheet

Movement in the deferred tax asset is as follows:

	Tax losses carried forward £m
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*
Effect of change in UK corporation tax rate	1.2
Recognised through the income statement	**(9.4)**
As at 29 November 2020	**1.9**

Notes to the financial statements (continued)

Section 2 – Results for the period (continued)

2.6 Taxation (continued)

As announced on 3 March 2021, the main rate of corporation tax will increase from 19% to 25% with effect from 1 April 2023; the impact will be accounted for in the accounts for the period ended 28 November 2021.

As at 29 November 2020 the Company had approximately £221.3 million of unutilised tax losses (2019: approximately £157.7 million) available for offset against future profits. A deferred tax asset of £1.9 million (2019: £10.1 million) has been recognised in respect of £10 million (2019: £59 million) of such losses, the recovery of which is supported by the expected level of future profits of the Group. During the period there was a release of the deferred tax asset of £9.4 million in respect of these losses.

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.

Movement in the deferred tax liability is as follows:

	Tax losses carried forward £m
As at 2 December 2018	(8.9)
Effect of change in UK corporation tax rate	-
Recognised through the income statement	(7.3)
As at 1 December 2019	(16.2)
Effect of change in UK corporation tax rate	(1.9)
Recognised through the income statement	(1.2)
As at 29 November 2020	**(19.3)**

For the period ended 29 November 2020 the Company has recognised a deferred tax liability of £19.3 million (2019: £16.2 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

Intangible assets comprise goodwill which arose from the purchase of the technology function from Ocado Retail Limited (i.e. the tangible and intangible assets and other capabilities required to provide the Services), 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 are capitalised and amortised on a straight-line basis over their useful lives of three to seven years.

The goodwill of £nil (2019: £310.6 million) 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. In the year management have impaired the full balance on the basis that the goodwill is not recoverable- see further details below.

Notes to the financial statements (continued)

Section 3 — Operating assets and liabilities (continued)

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, the costs are amortised in equal annual amounts over the estimated useful life of the software.

Impairment of computer software or licences are charged to administrative expenses in the period in which they arise. Amortisation on internally generated assets and 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.

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 period 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 £m	Internally generated assets £m	Other intangible assets £m	Total intangible assets £m
Cost				
At 1 December 2019	310.6	235.0	40.7	586.3
Additions	-	-	17.3	17 3
Internal development costs capitalised	-	87.6	-	87 6
Disposals	-	(1.9)	(1 7)	(3.6)
Transferred from Group undertaking	-	9.0	0.5	10
At 29 November 2020	**310.6**	**329.7**	**56.8**	**697.1**
Accumulated amortisation				
At 1 December 2019	-	(81.3)	(13 4)	(94.7)
Charge for the period	-	(40.3)	(8.2)	(48.5)
Impairment	(310.6)	(1.7)	(1 6)	(313.9)
Internal development costs capitalised		(0.6)	-	(0.6)
Disposals	-	1.9	1.7	3.6
Transferred from Group undertakings		(9.0)	(0.4)	(9.4)
At 29 November 2020	**(310.6)**	**(131.0)**	**(21.9)**	**(463.5)**
Net book value				
At 1 December 2019	310.6	153 6	27 4	491.6
At 29 November 2020	-	**198.7**	**34.9**	**233.6**

As per the requirements of IAS 38 "Intangible Assets" the goodwill balance has been reviewed for indicators of impairment. Given that the Company is loss making, and has negative projected future cash flows, management have impaired the full balance of goodwill in the year. The impairment charge has been recognised in the income statement as an exceptional item. The indicators of impairment were not present in the prior year due to former recharging mechanisms with Retail which have now changed as a result of the part disposal of Retail to M&S.

For the period ended 29 November 2020, internal development costs capitalised by the Company represented approximately 84% (2019: 84%) of expenditure on intangible assets and 60% (2019: 62%) 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

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. Land is held at cost and not depreciated.

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 indicated below. Residual values and expected useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period. Depreciation on other non-current assets is charged to both distribution costs and administrative expenses.

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 represents 31.5% (2019: 29.6%) of the total asset base of the Company in 2020. 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 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. Increasing an asset's expected life or its residual value would result in a reduced depreciation charge in the income statement.

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 1 December 2019	**117.3**
Additions	**40.9**
Disposals	**(1.1)**
Transferred from Group undertakings	**0.5**
At 29 November 2020	**157.6**
Accumulated depreciation and impairment	
At 1 December 2019	**(27.0)**
Charge for the period	**(10.8)**
Impairment	**(1.4)**
Disposals	**0.7**
Transferred from Group undertakings	**(0.5)**
Reclassification	**0.6**
At 29 November 2020	**(38.5)**
Net book value	
At 1 December 2019	90.3
At 29 November 2020	**119.1**

Included within property, plant and equipment is capital work-in-progress for fixtures, fittings, plant and machinery of £34.3 million (2019: £22.2 million). For details on the impairment of the Andover CFC, please refer to note 2.4.

3.3 Investment in subsidiaries

Investments in subsidiaries are valued at cost, less accumulated impairment. Where the recoverable amount of an investment is less than its carrying amount, impairment is recognised. Impairment reviews are undertaken whenever there is indication of impairment, and at least once a year.

	29 November 2020	1 December 2019
	£m	£m
Investment in subsidaries	**2.0**	1.3

The movement of £0.7 million in the year is the impact of IFRS2 Share Based Payment transactions and the capital contribution from the Parent (see Statement of Changes in Equity).

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 table for details.

Notes to the financial statements (continued)

Section 3 — Operating assets and liabilities (continued)

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 Innovation Limited and the class of shares held are ordinary shares.

3.4 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.

	29 November 2020 £m	1 December 2019 £m
Other receivables	**7.8**	5.8
Prepayments	**5.3**	2.9
Amounts due from group subsidiaries	**12.0**	14.1
	25.1	22.8

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, and management has assessed the recoverability of these balances.

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.

	29 November 2020 £m	1 December 2019 £m
Cash and cash equivalents	**2.9**	-

3.6 Other payables

Trade and other payables are initially recognised at fair value and subsequently at amortised cost, using the effective interest rate method. Amounts owed to group undertaking are unsecured, interest bearing after 180 days at Base Rate + 5.5%, have no fixed date of repayment and are repayable on demand.

	29 November 2020 £m	1 December 2019 £m
Trade payables	**2.3**	0.6
Accruals and deferred income	**12.8**	9.8
Amounts due to group subsidiaries	**730.0**	465.8
	745.1	476.2

Notes to the financial statements (continued)

Section 4 — Capital structure and financing costs

4.1 Borrowings

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.

4.2 Finance income and costs

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 29 November 2020 £m	52 week period ended 1 December 2019 £m
Interest on balances due from group undertakings	2.6	2.1
Finance income	**2.6**	2.1
Interest on balances due to group undertakings	(14.0)	(9.0)
Finance costs	**(14.0)**	(9.0)
Net finance costs	**(11.4)**	(6.9)

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 1 December 2019 and 29 November 2020	1	-

The share is fully paid, have equal voting rights and carry no right to fixed income. The share has a nominal value of £1.

Notes to the financial statements (continued)

Section 5 – Other notes

5.1 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 £36.4 million (2019: £1.3 million).

5.2 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.

5.3 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. There were no transactions in the year with related parties that are not wholly owned by Ocado Group plc.

5.4 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.

On 10 August 2021, the Company entered into a collaboration agreement with Wayve Technologies Limited to develop software and technology that facilitate autonomous vehicles.

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

5.5 Ultimate parent undertaking and controlling party

The Company's ultimate parent undertaking and controlling party is Ocado Group plc, a company incorporated in England and Wales. Ocado Group plc is the parent undertaking of the largest and smallest group of undertakings to consolidate these financial statements as at 29 November 2020.

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

The Company's immediate parent undertaking and controlling party is Ocado Group plc.