Independent Auditor's Report

to the members of Ocado Group plc

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Ocado Group plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 2 December 2018 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated and parent company statement of cash flows; and
- the related notes 1 to 5.5 to the consolidated financial statements and notes 1 to 5.2 to the parent company financial statements.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

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

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year and prior year were: • Accounting for Solutions contracts • Capitalised project costs Key audit matters have been updated for the current year where required.
Materiality	The materiality that we used for the group financial statements was £6.6 million which was determined on the basis of revenue.
Scoping	The scope of our group audit includes all significant trading companies in the UK, whose results taken together account for over 95% of the group's revenue, profit after tax and net assets. All entities are managed from one central location in the UK and all audit work is completed by the group audit team. We performed analytical procedures over the remaining trading entities, the group's captive insurance company in Malta and development operations in Poland, Bulgaria and Spain.
Significant changes in our approach	In the prior year accounting for commercial income arrangements was included as a key audit matter. This has not been included in the current year as there is a consistent approach to the treatment of the commercial income year on year. There have been no significant changes in our approach in the period to 2 December 2018 compared to the prior period.

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the directors' statement in note 1.2 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the company, its business model and related risks, including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the company's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment and evaluating the directors' plans for future actions in relation to the going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 46 to 48 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation on page 45 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on page 49 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the directors' statement relating to the prospects of the group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Accounting for Solutions contracts

Key audit matter description

A number of Solutions contracts were signed with customers during the year. The accounting for Ocado Solutions contracts, which generally have a range of deliverables and therefore possible performance obligations, is complex and requires judgement, particularly as to the timing of revenue recognition. There is a potential risk of misstatement due to fraud or error if an inappropriate approach to revenue recognition is taken.

The group has elected to adopt IFRS 15 "Revenue from Contracts with Customers" ("IFRS 15") a year earlier than required by the accounting standard.

Payments received in respect of these contracts during the year amounted to £200.1m (2017: £146.1m). The group recognised revenue of £123.0m (2017: £108.4m) in the Income Statement.

The key audit matter for our audit is whether management has applied the principles of IFRS15 appropriately to each of the material Solutions contracts and therefore recognised the appropriate amount of revenue in the year. In particular our work has focused on the identification of, and value allocated to, distinct performance obligations and the profile and period over which revenue is recognised.

Refer to pages 77 and 78 (Audit Committee report), note 1.5 to the consolidated financial statements on the impact of adopting the new standard including the restatement of the prior year comparative, note 2.2 to the consolidated financial statements on segmental reporting, and note 1 on the related Critical Accounting Judgements and Key Sources of Estimation Uncertainty.

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Accounting for Solutions contracts

How the scope of our audit responded to the key audit matter	Our audit procedures included: • assessing the design and implementation of management's controls over the accounting for Solutions contracts including the impact of transition to IFRS 15; • meeting with senior management involved with the negotiation of the contracts, in particular the CEO of Ocado Solutions and the Deputy Legal Counsel to understand the substance of the agreements; • engaging with our internal specialists on the appropriate interpretation of the technical requirements in order to assess whether the accounting treatment applied by management for each contract is in line with IFRS 15; • reviewing each contract to understand the substance of the arrangement and to identify the potential accounting matters; • assessing the various deliverables inherent in each contract such as: exclusivity arrangements; set-up services; provision of software; and design and build of customer fulfilment centres ("CFC") to ascertain whether they constitute potential separate performance obligations; • assessing the fees that the Group will receive over the course of the contract in order to ascertain the appropriate amount of revenue that should be allocated to each performance obligation and the time period and profile over which that revenue should be recognised through consideration of the customer life; • obtaining evidence to support transactions such as invoices for services, cash receipts, or proof of delivery for software solutions; and • consideration of the complex disclosure requirements of IFRS 15 and obtaining evidence to support the amounts disclosed.
Key observations	We are satisfied that revenue from the Ocado Solutions contracts has been recognised appropriately in line with the contractual agreements and IFRS 15.

Capitalised project costs

Key audit matter description	The Group has invested significantly in developing the software and associated tangible assets it uses to operate the retail business and to provide the end-to-end Ocado Solutions Platform ("OSP") to Solutions partners. During the year the group invested £212.2m (2017: £160.1m) in capital expenditure. The carrying value of property, plant and equipment at the year end is £545.8m (2017: £453.7m) and for intangible assets is £143.7m (2017: £112.4m). Amounts capitalised included a internal development costs of £68.7m (2017: £54.5m). We identified this as a key audit matter due to the significant amounts invested and the level of judgement involved, for example in considering whether existing assets are potentially impaired (due to technology being superseded) and also the appropriateness of the useful economic life assigned to project assets. As assessment of useful life or potential impairment of assets requires considerable judgement and has an impact on the amounts recorded as an expense in the Income Statement, there is a potential risk of misstatement due to fraud or error. In the current year we focused our audit procedures on the risk of impairment, given the significant sums being invested and the fast pace of development. New technology could supersede previously capitalised projects or inappropriate amortisation rates could be used. Refer to page 78 (Audit Committee statement), notes 3.1 and 3.2 to the financial statements and the disclosures in respect of Critical Accounting Judgements and Key Sources of Estimation Uncertainty in note 1.

Capitalised project costs

How the scope of our audit responded to the key audit matter	Our audit procedures included: • assessing the design and implementation of management's controls over their process for assessing impairment, for example a half-yearly review of project status involving project managers and finance; • for the most significant projects, meeting with project managers responsible to inform our assessment of the feasibility and economic benefits of the projects, and to identify any indicators of impairment; • reviewing a sample of existing projects for indicators of impairment, including reviewing the profile of all project additions to assess whether abandoned or put on hold; • reviewing a sample of new projects to assess if they supersede previously capitalised assets; • reviewing amounts capitalised for projects that are still in progress and as a result are not being depreciated or amortised; this included reviewing the ageing of costs capitalised, as well as considering whether the classification is appropriate given our understanding of the projects and their likely future benefit; • benchmarking the useful economic lives applied by management against comparators; and • performing a series of analytic tests on the costs capitalised to identify items that in our judgement are unusual, and obtaining explanations and supporting evidence from management, for example challenging projects with limited or negative costs capitalised in the period, or project descriptions that could indicate impairment of assets already capitalised.
Key observations	Based on the audit procedures performed we are satisfied that the amounts capitalised are appropriate.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£6.6 million (2017: £6.0 million)	£6.5 million (2017: £5.6 million)
Basis for determining materiality	We determined materiality to be £6.6 million based on revenue. As a percentage, materiality is 0.4% of revenue (2017: 0.4% of revenue).	Parent company materiality equates to 1% (2017: 1%) of net assets.
Rationale for the benchmark applied	This has been based on professional judgement and the requirement of auditing standards. We believe revenue to be the financial measure most relevant to users of the financial statements given Ocado's performance, in particular its levels of profitability and the significant investment in technology.	The parent company does not generate significant revenues but instead incurs costs and as such net assets are an appropriate base to use to determine materiality.

On the basis of our risk assessment, together with our assessment of the group's control environment and the history of error we also set performance materiality for the group at £4.6 million (2017: £4.2 million) which represents 70% (2017: 70%) of materiality. We use performance materiality to determine the extent of our testing; it is lower than planning materiality to reflect our assessment of the risk of errors remaining undetected by our sample testing or uncorrected in the financial statements.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £330,000 (2017: £300,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

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An overview of the scope of our audit

This was our second year as auditor of Ocado and as such our audit approach included furthering our understanding of the business, the key processes and the controls supporting the group's transactions to assess the risks of material misstatement for each account balance and disclosure item. In line with our audit plan we relied on the key business and IT controls over the following business processes: capitalisation of tangible and intangible assets; inventory; supplier income; operating expenses; and payroll. We also used IT specialists to test the general IT controls over the key financial reporting systems (Oracle and the Warehouse Management Systems).

We visited three of the four operating Customer Fulfilment Centres ("CFCs"), the two General Merchandise Distribution Centres ("GMDCs") and the Fabled store. The Audit Partner met members of the Audit Committee, the Chairman, and Executive Directors. In addition as part of understanding the business and performing our audit procedures we met with senior management across the group. Taken together, this informed our group audit scope.

The scope of our group audit includes all significant trading companies in the UK, including the joint venture with Wm Morrisons Supermarket Plc. The results for these entities account for over 95% (2017: 97%) of the group's revenue, profit after tax and net assets. For the entities not subject to detailed audit work, the group's captive insurance company in Malta and the development operations in Bulgaria, Poland and Spain, we tested the consolidation process and carried out analytical procedures to confirm our conclusion there were no material misstatements in the aggregated financial information. All entities are managed from one central location in the UK and all audit work is completed by the group audit team.

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.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- Fair, balanced and understandable – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- Directors' statement of compliance with the UK Corporate Governance Code – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R (2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management and the audit committee, including obtaining and reviewing supporting documentation, concerning the group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team and involving relevant internal specialists, including tax and IT regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas: accounting for Solutions contracts and capitalised project assets; and
- obtaining an understanding of the legal and regulatory framework that the group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the group. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules and relevant tax legislation.

Audit response to risks identified

As a result of performing the above, we identified accounting for Solutions contracts and capitalised project costs as key audit matters. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance and reviewing internal audit reports; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

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

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

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Board of Directors on 3 May 2017 to audit the financial statements for the period ended 3 December 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 2 years, covering periods ending 3 December 2017 to the period ending 2 December 2018.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

Use of our report

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

Mark Lee-Amies FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, UK
5 February 2019