

Annual Financial Report

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Ocado Group PLC
11 February 2020

ANNUAL FINANCIAL REPORT
OCADO GROUP PLC
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Ocado Group plc Annual Financial Report 2019

Ocado Group plc ("Ocado") has today submitted to the Financial Conduct Authority's national storage mechanism its annual report and accounts for the 52 weeks ended 1 December 2019 (as required by Listing Rules 9.6.1 and 9.6.3).

The annual report and accounts for the 52 weeks ended 1 December 2019 is available to view on Ocado's website: www.ocadogroup.com (in compliance with Disclosure Guidance and Transparency Rule 6.3.5(3)).

Ocado's annual report and accounts for the 52 weeks ended 1 December 2019 will also be available for viewing at the Financial Conduct Authority's national storage mechanism at www.morningstar.co.uk/uk/NSM.

This announcement follows Ocado's announcement today of its preliminary results for the same period. A condensed set of Ocado's financial statements and information on important events that have occurred during the year and their impact on the financial statements and related party information were included in Ocado's preliminary results announcement. That information together with the information set out below is the information provided in satisfaction of the requirements of Disclosure Guidance and Transparency Rule 6.3.5. The description of principal risks and uncertainties below is extracted in unedited full text from the annual report and accounts for the 52 weeks ended 1 December 2019. Reading this announcement and/or the preliminary results announcement should not be a substitute for reading the full annual report and accounts for the 52 weeks ended 1 December 2019. This announcement and the preliminary results announcement are available to view on Ocado's website: www.ocadogroup.com.

Principal risks and uncertainties

We have identified 13 principal risks and uncertainties facing Ocado. These are considered by the Board to be material to the development, performance, position or future prospects of Ocado. These risks, mitigations and changes during the year are summarised in the table below. They are not set out in priority order. Further information on risk is set out on pages 48 to 52 of the annual report and accounts for the 52 weeks ended 1 December 2019.

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

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

		<ul style="list-style-type: none"> 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. 	
OPERATIONAL	Risk of supply chain disruption, in particular for single source equipment, that adversely affects product availability, delivery, reliability and cost, resulting in delays to contractual commitments and loss of revenue ⁽³⁾	<ul style="list-style-type: none"> · Setting up of a "Central Manufacturing Fund" governed by Supply Chain with a view to ensuring reliable supply of components. · Agile approach to manufactured products including the ability to divert any product to sites with the most pressing requirements. 	n
	Risk of a food safety, product safety or health & safety incident ⁽⁴⁾	<ul style="list-style-type: none"> · Experienced legal, food and product technology professionals and health and safety experts monitor compliance against policies and procedures. · Supplier approval and certification process. · Food and product safety policies and quality management with operational procedures. · Risk assessments and safe systems of work prepared by qualified staff to raise awareness and knowledge. · Active monitoring of international regulatory changes supported by territory expertise and recognised safety management system standards. 	çè
	Risk of changes in regulations impacting our business model or the viability of Ocado Solutions' deals.	<ul style="list-style-type: none"> · Regular monitoring of regulatory developments to ensure that changes are identified. · Due diligence carried out at appropriate stages in the Ocado Solutions process. 	çè
	Risk of negative implications due to changes in the global economic and geopolitical environment, including Brexit and the associated tariffs or difficulty in hiring employees, that may impact our business model ⁽⁵⁾	<ul style="list-style-type: none"> · Engagement with regulators and monitoring by management and specialist teams of the global and economic environment and regulatory changes to access the potential impacts on hiring employees, trading, operations or the business model. 	çè
	Failure to prevent or respond to a major cyber	<ul style="list-style-type: none"> · IT systems are structured to operate reliably and 	çè

	<p>attack or data breach that could result in business disruption, reputational damage, significant fines or the loss of customer, employee or confidential business information</p>	<p>securely. The security of our IT systems is regularly tested by third parties.</p> <ul style="list-style-type: none"> · An information security and PCI security governance programme overseen by the Information Security Committee. · A dedicated Information Security team to monitor for security issues and respond to security incidents. · No customer payment card data is held in Ocado's databases. · Data Protection Officer oversees the Group's privacy compliance programme. 	
	Risk of business interruption	<ul style="list-style-type: none"> · IT systems are structured to operate reliably and securely. · Dedicated engineering teams on site with daily maintenance programmes to support the continued operation of equipment. · Ongoing testing and research and development to make equipment and MHE more reliable and robust. · Disaster recovery testing and business continuity plans continue to be progressed and updated. · High level of protection for CFCs and equipment, combined with business interruption insurance to transfer residual risks. 	çè

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

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

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

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

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

Key: é Risk has increased ê Risk has decreased çè No change ñ Not applicable

For further information on the financial risks see pages 192 to 194 of the notes to the consolidated financial statements in the annual report and accounts for the 52 weeks ended 1 December 2019.

Directors' Responsibility Statement

Ocado's annual report and accounts for the 52 weeks ended 1 December 2019 contains the following statements regarding responsibility for the

financial statements and the annual report in compliance with DTR 4.1.12. This responsibility statement is repeated here (below) solely for the purposes of complying with Disclosure Guidance and Transparency Rule 6.3.5. It is not connected to the extracted information presented in the preliminary results announcement or this announcement.

Each of the Directors who held office at the date of the approval of this Annual Report (whose names and functions are listed on page 70 of this Annual Report) confirms, to the best of his or her knowledge, that:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group; and
- the "Management Report" (as defined in the Directors' Report on page 132) includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

The Directors of Ocado Group plc are listed on page 70 of the annual report and accounts for the 52 weeks ended 1 December 2019 and are listed on the Ocado Group's corporate website: www.ocadogroup.com. The Directors of Ocado Group plc as at the date of this announcement are as follows:

Lord Stuart Rose;
Tim Steiner;
Neill Abrams;
Duncan Tatton-Brown;
Mark Richardson;
Luke Jensen;
Jörn Rausing;
Andrew Harrison;
Emma Lloyd;
Julie Southern;
John Martin; and
Claudia Arney

Enquiries

For further information contact:

Ocado Group plc
Company Secretary
Neill Abrams

email: company.secretary@ocadogroup.com

Investor Relations

David Shriver
+44 1707 228 000

investor.relations@ocado.com

Person responsible for arranging the release of this announcement:

Neill Abrams
Company Secretary
Ocado Group plc
Buildings One & Two
Trident Place
Mosquito Way
Hatfield
Hertfordshire AL10 9UL
Fax: +44 (0)1707 227 997
email: company.secretary@ocadogroup.com

Ocado Group plc LEI: 213800LO8F61YB8MBC74

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