

Annual Financial Report

RNS Number : 0443P
Ocado Group PLC
05 February 2019

ANNUAL FINANCIAL REPORT
OCADO GROUP PLC
5 February 2019

Ocado Group plc Annual Financial Report 2018

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 2 December 2018 (as required by Listing Rules 9.6.1 and 9.6.3).

The annual report and accounts for the 52 weeks ended 2 December 2018 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 2 December 2018 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 2 December 2018. 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 2 December 2018. 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

44 to 49 of the annual report and accounts for the 52 weeks ended 2 December 2018.

Objective	Risks	Mitigation Action/Control	Change During The Year
DRIVING GROWTH	Risk of decline in high service levels in the retail business.	<ul style="list-style-type: none"> · Weekly monitoring of the key indicators and the underlying drivers against targets. · Continuing initiatives intended to improve resiliency and operational performance of the Hatfield and Dordon CFCs. There are ongoing plans to make the scaling of operations at Erith and Andover smoother. · These arrangements help reduce the impact of operational problems in CFCs on customer service levels. 	<p>ê</p> <p>The risk has decreased because CFC capacity at both Erith and Andover continues to increase.</p>
	Failure to maintain a retail proposition which appeals to a broad customer base and sustain growth rates while managing any change in sourcing which may follow the end of the current Waitrose sourcing agreement in 2020.	<ul style="list-style-type: none"> · Continuation of LPP basket matching price comparison and competitive pricing. · Growth of the Ocado own-label range alongside continued provision of the Waitrose range. · Growth of branded ranges and expansion of supplier base. · Alternative sourcing scenarios and other arrangements are planned in the event that the Waitrose sourcing relationship is not renewed. · Continuation of investment and optimisation of the marketing channels to acquire new customers. · Continued improvement of webshop and apps. 	<p>é</p> <p>This risk has increased because competitive pressure remains high and the Group is moving closer to the expiry of the current sourcing arrangements.</p>

	<p>Risk of not having sufficient management, technology and engineering capabilities to be able to execute effectively the requirements for multiple Ocado Solutions contracts simultaneously in many international locations.</p>	<ul style="list-style-type: none"> · Increased hiring of staff both in UK and overseas. · Review of team structures and creation of new key management roles and processes to position the Group for delivering a larger number of complex projects. · Increased hiring of managers and subject matter experts in retail, operational and central support areas. 	<p>é</p> <p>The risk has increased during the period because the Group needs to deliver more largescale and complex projects and it is now broader, in that it applies to developing sufficient engineering capability.</p>
	<p>Risk of delays in the generation of new capacity in the UK.</p>	<ul style="list-style-type: none"> · Dedicating resources to the modularisation of technology and logistics systems to enable faster replication. · New capacity continues to increase as the Andover CFC and Erith CFC develop. · Regular steering meetings and management oversight for new CFC projects. 	<p>ê</p> <p>This risk has decreased during the period because both the Andover and Erith CFCs have continued to increase capacity.</p>
<p>MAXIMISING EFFICIENCY</p>	<p>Risk that the long-term cost of ownership of our fulfilment solutions is not priced at a level that is attractive for our clients while still providing acceptable returns for our shareholders.</p>	<ul style="list-style-type: none"> · 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. A new role of Group Transformation Director was created to prepare and help execute a detailed plan to ensure timely and coordinated scaling of operations. · There is an ongoing programme of design improvements for the platform. · The amount of capital invested in our platform is carefully controlled 	<p>çè</p>

		and we have the ability to reduce costs by scaling back the speed of the development.	
UTILISING PROPRIETARY KNOWLEDGE	Technological innovation supersedes our own and offers improved methods of food distribution to consumers.	<ul style="list-style-type: none"> 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. 	<p>é</p> <p>This risk has increased because the rate of innovation of MHE, robotics and technology solutions in the grocery e-commerce market is increasing, creating a more competitive market for the Ocado Solutions offer.</p>
	Protecting our IP.	<ul style="list-style-type: none"> 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. 	çè
	Infringing a third party's IP.	<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. 	çè
OPERATIONAL	A risk of a food safety or product safety incident.	<ul style="list-style-type: none"> Experienced legal, food and product technology professionals monitor 	çè

		<ul style="list-style-type: none"> compliance against policies and procedures. · Supplier approval and certification process. · Food and product safety policies and quality management with operational procedures. 	
	A 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. · Some due diligence carried out at appropriate stages in the Ocado Solutions process. 	çè
	Risk of negative implications caused by final Brexit terms such as increase in import costs or difficulty in hiring employees.	<ul style="list-style-type: none"> · Regular monitoring of government reporting on Brexit negotiations to understand impact on the business including our ability to hire employees from the EU, an assessment of trade tariffs on imported goods and impact of disharmonisation of UK and EU regulatory standards in a range of areas. · We are taking a range of steps to mitigate the impact of Brexit on the Group including for supply of products and materials and for changes to regulation. 	é Lack of clarity on any post Brexit trade arrangements as the exit date approaches increases the risk and uncertainty on the extent to which our operations and performance will be impacted by Brexit.
	Risk of major cyber attack or data loss impacting the retail business or the Ocado Solutions business.	<ul style="list-style-type: none"> · IT systems are structured to operate reliably and securely. The security of our IT systems is regularly tested by third parties. · An information security governance programme is helping increase security and privacy internal controls. · No customer payment card data 	é The overall information security risk exposure has increased during the period largely as a result of an increasing external threat environment, the new General Data Protection Regulations and the increasing

	is held in Ocado's databases.	overall profile of the Group.
	<ul style="list-style-type: none"> · A new Data Protection Officer was hired to oversee the Group's GDPR compliance programme. 	
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. · 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 described in the 2017 Annual Report as "Failure to develop retail proposition to appeal to broader customer base and sustain growth rates" has been expanded to reflect the end of the current Waitrose sourcing agreement in 2020.

2. The risk described in the 2017 Annual Report as "Risk of not signing multiple Ocado Solutions deals in the medium term" is no longer considered a principal risk. Since November 2017 Ocado has signed partnership agreements with four major international grocers.

3. The risk described in the 2017 Annual Report as "Risk of not being able to executive effectively" has been revised to reflect a failure to deliver key projects effectively and efficiently that could result in significantly increased costs and impede Ocado's ability to execute strategic plans.

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

For further information on the financial risks see pages 193 to 195 of the notes to the consolidated financial statements in the annual report and accounts for the 52 weeks ended 2 December 2018.

Directors' Responsibility Statement

Ocado's annual report and accounts for the 52 weeks ended 2 December 2018 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 61 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 131) 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 61 of the annual report and accounts for the 52 weeks ended 2 December 2018 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:

Stuart Rose;
Tim Steiner;
Neill Abrams;
Duncan Tatton-Brown;
Mark Richardson;
Luke Jensen;
Ruth Anderson;
Jörn Rausing;
Douglas McCallum;
Andrew Harrison;
Emma Lloyd; and
Julie Southern

Enquiries

For further information contact:

Ocado Group plc
Company Secretary
Neill Abrams
email:
company.secretary@ocado.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@ocado.com

Ocado Group plc LEI: 213800LO8F61YB8MBC74

This information is provided by RNS, the news service of the London Stock Exchange. RNS is approved by the Financial Conduct Authority to act as a Primary Information Provider in the United Kingdom. Terms and conditions relating to the use and distribution of this information may apply. For further information, please contact rns@lseg.com or visit www.rns.com.

END

ACSUGUUWPUPBPGC