

Independent Auditors' Report

to the members of Ocado Group plc

Report on the group financial statements

Our opinion

In our opinion, Ocado Group plc's group financial statements (the "financial statements"):

- give a true and fair view of the state of the group's affairs as at 29 November 2015 and of its profit and cash flows for the 52 week period (the "period") then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

What we have audited

The financial statements, included within the Annual Report and Accounts (the "Annual Report"), comprise:

- the Consolidated Balance Sheet as at 29 November 2015;
- the Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the period then ended;
- the Consolidated Statement of Cash Flows for the period then ended;
- the Consolidated Statement of Changes in Equity for the period then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

Our audit approach

Overview

Context

Our 2015 audit was planned and executed having regard to the fact that the operations of Ocado were largely unchanged from the prior year albeit the level of capital expenditure, particularly in relation to developing the platform, continued to be significant. In addition we had regard to the continued tough trading environment in the UK grocery market, whilst noting that Ocado continued to grow its customer base and revenues, and the potential impact this might have on cash flow projections used to support asset carrying values. In light of this our overall audit approach in terms of scoping and areas of focus was largely unchanged with continued scrutiny over the development and technical feasibility of key capital projects and the assessed economic return that these were anticipated to achieve.



- Overall group materiality: £4.5m which represents 0.41% of revenue.
- The complete financial information of all active trading companies located in the UK, whose results taken together account for all material balances and line items within the consolidated financial statements, were audited by the UK engagement team.
- The UK engagement team also audited the group's joint venture with Wm Morrisons Supermarkets Plc ("Morrisons").
- Commercial income.
- Capitalisation of internal development costs.
- Share based payments.
- Deferred tax asset.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
<p>Commercial income</p> <p>As described in the Audit Committee Report on page 64 and in the critical accounting estimates and judgements and accounting policies sections in the notes to the accounts (page 135), Ocado has three main streams of commercial income; promotional support; media income; and volume rebates.</p> <p>This remains an area of focus due to the judgments involved and the quantum of income recorded under these arrangements and its significance in relation to the result for the period. The amount to be recognised in the income statement for elements of commercial income requires management to apply judgement based on the contractual terms in place with suppliers and estimates of amounts the group is entitled to where transactions span the financial period-end.</p> <p>Promotional support and media income</p> <p>Promotional support and media income arrangements are typically structured to last for a four week duration and are settled with suppliers within a short period following the relevant service or promotion having been fulfilled. This income stream involves high volume, lower value arrangements and requires limited judgement or estimation by management in determining the amount that the group is entitled to. Notwithstanding the limited judgement involved, the magnitude of this income is highly material. Our focus was therefore whether an arrangement or agreement for the promotional support and media income recognised existed, whether the relevant promotion or media advertising had taken place and whether the income recognised was recorded in the appropriate period.</p> <p>Volume rebates</p> <p>Volume rebates is the stream of commercial income which, in our view, involves the most judgement. Volume rebates are earned both on supply arrangements managed by Waitrose (as the group's supply partner) under the Waitrose sourcing agreement referred to on page 12 and on arrangements with direct suppliers to Ocado. Rebates earned under Waitrose managed supply arrangements are material to the group's results whilst rebates earned from direct suppliers are becoming more significant. Entitlement to income under Waitrose supply arrangements is based on the level of purchasing activity made by Ocado under the Waitrose sourcing agreement and the specific contractual terms negotiated with various suppliers by Waitrose.</p> <p>As Waitrose negotiates and agrees the contracts with suppliers, Ocado has to determine income to be recorded based on interim payments received during the year and information provided by Waitrose in relation to amounts due at the period end. The key judgement that we therefore focus on in the calculation of Ocado's share of rebates due from Waitrose is the estimate of amounts to be accrued at the period end, based on information provided by Waitrose.</p>	<p>Promotional support and media income</p> <p>Our approach, specifically in relation to promotional income, was underpinned by testing key system controls, including those used to determine the amount of items sold under the terms of a supplier funded promotion arrangement. We determined that the testing of these controls provided us with audit evidence that promotional support income had been recorded appropriately and in the correct period. Our testing for promotions also included checking the computation of the amounts billed to suppliers.</p> <p>We additionally reconciled the total value of promotion income recorded in Ocado's "Promotions" system for the period to the total value recognised in the general ledger and found no material reconciling items.</p> <p>We independently confirmed the terms of a sample of individual promotion and media agreements, covering both the duration of the promotion / campaign and the quantum of promotional support per unit sold / the price charged for the campaign, directly with a range of suppliers, including requesting confirmation of items invoiced in the period and for amounts accrued at the period end, checking that the amount recognised was recorded in the correct period based on the suppliers' confirmation of details of the period the funding related to.</p> <p>Similar to promotional income, we reconciled the total value of amounts recorded in Ocado's "Media" booking system to the total value of media income recorded in the financial statements and found no material reconciling items. We also selected a sample of individual media adverts in the period and checked that income relating to these adverts was recognised in the period.</p> <p>Volume rebates</p> <p>In relation to income due from Waitrose under the terms of their supply arrangements, we visited the Waitrose head office and met with the members of the Waitrose Commercial Finance team responsible for determining rebates due to Ocado. We obtained and read a sample of supplier contracts negotiated by Waitrose and checked that there was an accrual for amounts due to Ocado in relation to these agreements, the accuracy of which we tested as set out below. We also considered how Waitrose determine their overall supplier volume rebate income and the associated Ocado share of this.</p> <p>We agreed a sample of amounts invoiced by Ocado to Waitrose during the period by testing the settlement of these amounts by Waitrose. With respect to accrued income recognised as due from Waitrose at the period end, we obtained a direct confirmation from Waitrose at the period end of the data used by Ocado to estimate the year end accrued income generated from supplies sourced through Waitrose. We reperformed the calculation undertaken by Ocado using this data to determine the year end accrued income and concluded the amounts recognised were reasonable.</p> <p>We also assessed the historical accuracy of estimates made by Ocado in relation to the estimate of the full year amount due to them from Waitrose noting that historic estimates in the last two years had proved highly accurate, based on amounts finally invoiced and settled.</p> <p>In respect of income due under direct supply arrangements we circularised a number of suppliers to confirm directly the amount of accrued income that Ocado should recognise at the year end. We received confirmations from all suppliers circularised with no issues of note arising.</p> <p>Overall commercial income</p> <p>In relation to the overall amounts recognised for all material commercial income streams, we analysed the total amounts recognised quarterly for each stream, and compared these amounts to the equivalent month in the previous year, to identify whether there were any unusual trends of significance in the amounts or timing of commercial income recognised in each period. No such items were identified.</p>

Independent Auditors' Report (continued)

to the members of Ocado Group plc

Area of focus

Capitalisation of internal development costs

As explained on pages 20 and 22, Ocado develops a significant amount of the software used to operate the systems and technology used in the business and are further developing additional technology to increase the efficiency and capacity of existing operations, and to support future international expansion. In the current period, as set out in note 3.1 £29.7m of internal development costs have been capitalised within Intangible Assets and Property, Plant and Equipment.

We focussed on this area due to the size of the internal costs capitalised, and the fact that there is judgement involved in assessing whether the criteria set out in the accounting standards required for capitalisation of such costs had been met, particularly:

- The technical feasibility of the project; and
- The likelihood of the project delivering sufficient future economic benefits.

We had particular regard to the fact that the group has continued to invest in new technology to support future expansion both in the UK and internationally, and therefore we focussed on whether the economic benefits of the various projects under development supported the amounts capitalised. This specifically included:

- Projects relating to the re-platforming of the group's technology to enable it to improve its ability to develop and operate and to expand internationally, where the economic benefit of a successful launch is only achieved in the longer term and is inherently, therefore, more judgemental, and
- Projects where there are significant judgements made as to the level of future economic benefits due to the innovative nature of some of the technology being developed.

As part of our work we also focussed on management's judgements regarding whether capitalised costs were of a developmental rather than research nature (which would result in the costs being expensed rather than capitalised); and whether costs, including employment (payroll) costs, were directly attributable to relevant projects.

In light of the development of new software and systems, we also focussed on whether the carrying value of existing capitalised software or systems was impaired.

How our audit addressed the area of focus

We obtained a breakdown, by value, of all individual internal development projects capitalised in the period and reconciled this to the amounts recorded in the general ledger, identifying no reconciling differences.

We tested all projects where capitalised costs were in excess of £250,000, together with a sample of smaller projects from the remaining population, as follows:

- We obtained explanations from management of why the project was considered to be capital in nature, in terms of how the specific requirements of the relevant accounting standards and other guidance, most notably of IAS 38, IAS 16 and SIC 32 (Web Site Costs) were met. We also conducted interviews with individual project development managers responsible for the projects selected to corroborate these explanations and to obtain an understanding of the specific projects to enable us to independently assess whether the projects met all the criteria for capitalisation set out in accounting standards. We found the explanations obtained from individual project managers to be consistent with those obtained from management, our understanding of developments in the business and supported management's assessment that the costs met the relevant capitalisation criteria.
- We challenged both management and the relevant development project managers as to whether the development of new software or systems superseded or impaired any of the existing assets on the balance sheet. We noted that, as disclosed in notes 3.1 and 3.2 an impairment charge of £1.8m was recorded in this regard, but did not identify any further indicators of impairment. We also applied our own understanding of both new and existing projects and considered whether, in our view, there were any projects where the software is no longer in use or its life was shortened by any development activity. We found no such items.

To determine whether costs were directly attributable to projects, we obtained listings of hours worked on individual projects and selected a sample of the individual hours recorded and met with the project manager of the relevant project to obtain an understanding of the project being worked upon and to confirm that the employee selected for testing was involved on the project and to ascertain the nature of the work they had been performing. We also checked the hours charged equated to the value of costs capitalised, by applying the standard charge out rate per employee to the timesheet hours, without exception.

We also tested the standard hourly rates, referred to above, that had been applied to the hours identified as appropriate for capitalisation by reconciling these to the hourly rate equivalent of the average salary of Ocado's technology development team. We agreed that the rates applied reflected an appropriate amount of internal development employee costs in each instance with no significant matters arising.

Area of focus	How our audit addressed the area of focus
<p>Share based payments</p> <p>The group has in place a number of different share incentive schemes which are accounted for in accordance with IFRS 2 "Share based payments". These range from non-complex 'vanilla' share option plans to more complex Executive Director long term incentive schemes, details of which are explained in note 4.10.</p> <p>The accounting treatment differs for each scheme depending on the details of the individual scheme. For certain schemes, namely the "Growth Incentive Plan" and the "Long Term Incentive Plans", determining the appropriate accounting charge for the period requires various judgments to be made including the likelihood of specific performance criteria being met (e.g., 'Revenue' and 'Earnings Before Interest and Tax' targets and share price growth) which determines whether an award will crystallise, and the level of payout that will be achieved.</p> <p>Whilst there were no new schemes introduced during the year there were a number of grants under pre-existing schemes. We focussed on understanding the details of each grant and the associated accounting in relation to such grants as well as existing schemes where measurement criteria, impacting the accounting, needed to be reassessed in the year.</p>	<p>For all new grants we discussed with management the accounting that they had applied, and together with our own independent evaluation of the contractual documentation, evaluated whether the accounting charge (where applicable) and disclosures in relation to each scheme were in accordance with IFRS 2, and determined that the treatment and disclosures relating to the schemes was consistent with the accounting requirements. We also re-performed the related calculations to check their arithmetical accuracy with no exceptions identified.</p> <p>Where the accounting charge to be recorded was dependent on judgement around the achievement of various performance criteria, including an assessment of achieving future targets, we challenged management's assumptions and performed sensitivity tests around the projected achievement levels. We also compared the future projections used by management, to determine the accounting charge, to the group's detailed business plans and forecasts and external market data, which we found to be materially consistent.</p> <p>We also had regard to the level of historical accuracy of management's projections.</p> <p>In light of the above, we found that the judgements made by management were reasonable and that the charge booked was not materially sensitive to what we considered to be a range of realistically possible alternative outcomes as to the levels of performance attained.</p>
<p>Deferred tax asset</p> <p>As set out in note 2.8 Ocado recognise a deferred tax asset of £10m. This was an enhanced area of focus in the current year as the group now has recorded a profit in each of the last two years raising the prospect of potentially recognising a larger element of available tax losses as an asset on the balance sheet. Determining an appropriate level of deferred tax asset to recognise requires some judgement particularly in relation to the assessed future profitability of the business and the risk adjustment factors applied to these profit projections by management as described on page 139.</p>	<p>We obtained the detailed tax computation produced for the group and tested the computation of accelerated capital allowances and tax losses available to offset against current and future taxable profits.</p> <p>In addition we tested the arithmetic accuracy of the model used by management to derive the level of deferred tax asset to recognise as well as validating that the inputs to the model were appropriate and consistent, where appropriate, with projections used elsewhere in the business. No issues of note arose from this work.</p> <p>We further considered the appropriateness of the risk adjustment factor applied to the calculation having regard to the continued profitability of the business and the wider challenges and opportunities facing Ocado as set out in the strategic report on pages 14 and 15 and CEO's review on pages 24 to 29. On balance we concluded that the level of risk adjustment was appropriate given the current and forecast trading performance of the business, the market place it operates in and the current status of international expansion plans.</p>

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the group, the accounting processes and controls, and the industry in which the group operates.

As described in the Strategic Report, specifically on pages 9 to 11, the group's main trading activities are grocery retailing and the development and monetisation of intellectual property and technology for the online retailing, logistics and distribution of grocery and consumer goods, which is all currently undertaken in the UK.

The group's retailing, logistics and technology development operations are held in separate legal entities. The scope of our audit includes all active trading companies located in the UK, whose results taken together account for all material balances and line items within the consolidated financial statements. All entities are managed from one central location in the UK and all audit work is undertaken by the UK engagement team.

The group structure also includes a Joint Venture arrangement with Morrisons related to the provision of warehouse equipment in CFC2. The results of this entity are also audited by the UK engagement team. No audit work was deemed necessary in relation to the group's captive insurer in Malta or development operation in Poland as the results of these entities are immaterial to the overall consolidated financial statements.

Independent Auditors' Report (continued)

to the members of Ocado Group plc

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

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

Overall group materiality	£4.5m (2014: £4m).
How we determined it	0.41% of revenue.
Rationale for benchmark applied	We have applied revenue as a benchmark for determining materiality as we considered that this provides us with a consistent year-on-year basis for determining materiality, reflecting the group's growth and investment actions aimed at delivering enhanced levels of future profitability, and which we believe is also a key measure used by the shareholders as a body in assessing the group's performance.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £225,000 (2014: £200,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the directors' statement, set out on page 39, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the directors' statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the group has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the group's ability to continue as a going concern.

Report on the group financial statements

Consistency of other information

Companies Act 2006 opinion

In our opinion:

- In our opinion, 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.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

<ul style="list-style-type: none"> information in the Annual Report is: <ul style="list-style-type: none"> materially inconsistent with the information in the audited financial statements; or apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or otherwise misleading. 	We have no exceptions to report.
<ul style="list-style-type: none"> the statement given by the directors on page 62, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the group's and parent company's performance, business model and strategy is materially inconsistent with our knowledge of the group and parent company acquired in the course of performing our audit. 	We have no exceptions to report.
<ul style="list-style-type: none"> the section of the Annual Report on pages 63 to 67, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee. 	We have no exceptions to report.

The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

<ul style="list-style-type: none"> the directors' confirmation on page 62 of the Annual Report, in accordance with provision C.2.1 of the Code, 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. 	We have nothing material to add or to draw attention to.
<ul style="list-style-type: none"> the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated. 	We have nothing material to add or to draw attention to.
<ul style="list-style-type: none"> the directors' explanation on page 39 of the Annual Report, in accordance with provision C.2.2 of the Code, 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 have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the directors' statement that they have carried out a robust assessment of the principal risks facing the group and the directors' statement in relation to the longer-term viability of the group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of information and explanations received

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. We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

Independent Auditors' Report (continued)

to the members of Ocado Group plc

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on pages 76 and 77, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the company financial statements of Ocado Group plc for the 52 week period ended 29 November 2015 and on the information in the Directors' Remuneration Report that is described as having been audited.

Andrew Latham (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
St Albans
2 February 2016