

# Accounting Seminar - ORL deconsolidation

July 2025

# Agenda and Overview

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    - Leases
    - Shareholder loan
    - Upfront fees and contract liabilities
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# Overview

As a result of the transfer of determinative rights (built into the original 2019 Shareholder Agreement), Ocado Group deconsolidated Ocado Retail ('ORL') in April 2025. At this point, M&S was deemed to 'control' ORL (as defined by accounting standards) and began consolidating ORL

There is no change in Ocado's economic interest in ORL and the day to day business remains unchanged..

## Accounting implications:

- This is a change in accounting presentation only
- FY24: ORL was presented as a *discontinued operation* under IFRS 5.
- FY25: ORL will be accounted for as a *discontinued operation* under IFRS 5 (to the point control is transferred) and then an *investment in associate* under the equity method (IAS 28).

# Reporting impacts

# Background

The Group **historically fully consolidated** the results of Ocado Retail as it was deemed to be the controlling shareholder via certain tie-breaking rights.

M&S accounted for Ocado Retail under 'Investments in joint ventures and associates'.

The Shareholder Agreement signed in 2019, provides for Ocado Group to stop consolidating the results of Ocado Retail **no earlier than the fifth anniversary and no later than the sixth anniversary**, and for M&S to start consolidating after that time.

This is simply the change in control contemplated in the original agreement, with no change in the economic interest and no consideration.

This change was effected at midnight on **6 April 2025**.

# Impact of change of control in 1H25

As a result of the change of control :

- In the profit and loss account, for the period up to control being transferred - Ocado Group consolidates ORL but reports ORL and related intra-group eliminations as a discontinued operation. For the period after control is transferred, Ocado Group ceases to consolidate the results of ORL and instead reports a 'share of results in joint venture and associate'
- On the balance sheet, Ocado Group accounts for its 50% interest in ORL as an investment in associate using the equity method of accounting. This means recognising the investment as a single line item on the balance sheet with movements in the carrying amount reflecting Ocado Group's share of the movement in ORL net assets
- Ocado Group will recognise its investment in ORL initially at accounting fair value, resulting in an accounting gain on deconsolidation (the gain being the difference between the fair value and the movement in net assets arising on deconsolidation)

# Reporting at 1H25 - Income Statement

The income statement in 1H25 therefore includes both discontinued operations and share of joint venture and associate results in relation to ORL (as highlighted below)

	Results before adjusting items £m	Adjusting items £m	Total £m
<b>Continuing operations</b>			
Revenue	674.0	-	674.0
Operating costs	(756.4)	(38.6)	(795.0)
<b>Operating (loss)/profit before results of joint ventures and associate</b>	<b>(82.4)</b>	<b>(38.6)</b>	<b>(121.0)</b>
Share of results of joint venture and associate	(2.9)	(1.0)	(3.9)
<b>Operating (loss)/profit</b>	<b>(85.3)</b>	<b>(39.6)</b>	<b>(124.9)</b>
Finance income	16.2	2.0	18.2
Finance costs	(66.1)	-	(66.1)
Other finance gains and losses	(2.6)	2.3	(0.3)
<b>Loss before tax from continuing operations</b>	<b>(137.8)</b>	<b>(35.3)</b>	<b>(173.1)</b>
Income tax (expense)/credit	(2.4)	-	(2.4)
<b>Loss for the period from continuing operations</b>	<b>(140.2)</b>	<b>(35.3)</b>	<b>(175.5)</b>
<b>Discontinued operations</b>			
Profit after tax from discontinued operations	10.2	777.1	787.3
<b>(Loss)/profit for the period</b>	<b>(130.0)</b>	<b>741.8</b>	<b>611.8</b>



# Reporting at 1H25 - Balance Sheet

The Balance Sheet at 1H25 now includes Investment in Associate and Net Investment in leases ('NIIL') for assets previously included in PP&E and RoU assets (see extract below)

	1 June 2025 £m	1 December 2024 £m
<b>Non-current assets</b>		
Goodwill	145.2	158.2
Other intangible assets	525.4	496.5
Property, plant and equipment	1,417.9	1,555.4
Right-of-use assets	196.8	264.8
Net investment in leases	132.7	-
Investment in joint venture and associate	753.1	7.0
Other financial assets	202.8	100.8
Trade and other receivables	-	-
Deferred tax assets	3.6	4.7
Derivative financial assets	3.4	3.4
	<b>3,380.9</b>	<b>2,590.8</b>

# Reporting at 1H25 - Cash flow

The Cash flow statement presented at 1H25 includes the cash flows of Ocado Retail up to the point of deconsolidation.

There is no significant change in the presentation of the cash flow statement as a result of the deconsolidation in 1H25.

In future, cash flows will no longer reflect movements in line items relating to Ocado Retail.

# Pro-forma financial statements

We have prepared a pro-forma view of 1H24, FY25 and 1H25 which show each of the Income Statement, Balance Sheet and Cashflow as if the change in control had occurred at an earlier date. These pro-forma statements reflect the reporting of the Group following the deconsolidation of ORL.

The pro-forma statements show the following :

- Income statement shows Ocado Group's share of ORL profit after tax (rather than full line by line consolidation)
- Balance sheet shows investment in associate instead of line by line consolidation, as well as changes to fixed assets and leases
- Cash flow statement shows cash flows in relation to ORL only as they relate to funding (shareholder loan, interest) or lease transactions

Refer to Appendix 2 for copies of pro-forma financial information

# Specific impacts of deconsolidation

# Impacts of change of control

As well as the change in accounting treatment of the investment in ORL there are other specific items which will now be reported in the income statements and on the balance sheet of the Group that previously eliminated on consolidation .

These primarily relate to:

- Assets subject to leases between Ocado Group and Ocado Retail
- Shareholder loan provided from Ocado Group to Ocado Retail
- Up-front fees paid by Ocado Retail to Ocado Group

The impact of each of these is laid out on the following slides.

# Impacts of change of control - leases

Ocado Group provides assets for Ocado Retail's use under agreements that meet the definition of leases under IFRS 16 - this is for both Ocado Group owned assets and leased assets.

While Ocado Group consolidated Ocado Retail, these amounts eliminated at a Group level.

Following the deconsolidation of ORL Ocado Group has:

- Derecognised items of Property, Plant and Equipment (PP&E) subject to lease arrangements with ORL;
- Derecognised Right of Use assets subject to lease arrangements with ORL;
- Recognised a Net Investment in Lease ('NII') of c.£150m for these assets being the present value of future amounts receivable under lease arrangements; and
- Recognised interest income in the Income Statement from the unwinding of discount in the NII.

# Impacts of change of control - shareholder loan

Ocado Group and M&S have provided loan financing to ORL of £180m (£90m per shareholder).

While Ocado Group consolidated Ocado Retail, Ocado Group reported a financial liability of £90m plus accrued interest relating to M&S' portion of the loan.

Following the deconsolidation of ORL, Ocado Group now reports :

- a financial asset of £90m plus accrued interest on the Balance Sheet representing the loan receivable from ORL; and
- interest income in the Income Statement for interest receivable on the shareholder loan to ORL. Accrued interest at 1H25 is £12m.

# Impacts of change of control - upfront fees (contract liabilities)

Ocado Group has received upfront fees from ORL for CFC, Zoom and Spoke sites.

Whilst Ocado Group consolidated Ocado Retail, amounts received for upfront fees were eliminated at a Group level.

From the point of deconsolidation of ORL, Ocado Group:

- Recognises revenue representing the release of upfront fees over the life of the contract to the Income Statement
- Reports contract liabilities of c.£55m on the Balance Sheet, representing the unamortised upfront fees at the point deconsolidation occurred.



# Impacts of change of control - ORL valuation and accounting gain

As a result of the transfer of accounting control between Ocado Group and M&S, Ocado Group has:

- Derecognised the assets and liabilities of Ocado Retail from the consolidated balance sheet;
- Recognised the investment in Ocado Retail as an investment in associate under the equity method of accounting - initially at an accounting fair value of £750m;
- Recognised a gain on the loss of control attributable to the former controlling interest of £783m (effectively the difference between (1) and (2))

Accounting fair value was determined using a DCF methodology with the ORL Board-approved 5YP as a base, extrapolated for a further 9 years

This accounting gain is accounted for as part of discontinued operations and as an adjusting item.

# Appendices

# Appendix 1 - Change in control - accounting standards

The accounting treatment is governed by three accounting standards:

- **IFRS5** (Non-current assets held for sale and discontinued operations) - presentation in anticipation of the change in control
- **IFRS10** (Consolidated financial statement) - loss of control
- **IAS28** (Investments in associates and joint ventures) - accounting for ORL following the change in control

# Appendix 2 - Pro-forma financial information

Income Statement			
£m	1H25	1H24	FY24
<b>Revenue</b>			
Technology Solutions	277.3	241.4	496.5
Logistics	396.7	354.0	718.0
<b>Group</b>	<b>674.0</b>	<b>595.4</b>	<b>1,214.5</b>
<b>Operating costs</b>			
Technology Solutions	(204.5)	(206.6)	(415.6)
Logistics	(377.7)	(336.8)	(686.9)
<b>Group</b>	<b>(582.2)</b>	<b>(543.4)</b>	<b>(1,102.5)</b>
<b>Adjusted EBITDA</b>			
Technology Solutions	72.8	34.8	80.9
Logistics	19.0	17.2	31.1
<b>Group</b>	<b>91.8</b>	<b>52.0</b>	<b>112.0</b>
Share of results of JV/Assocs*	(8.4)	(12.7)	(24.1)
Depreciation and amortisation*	(174.2)	(186.1)	(414.2)
Finance income*	22.4	25.6	49.5
Finance costs*	(66.1)	(42.3)	(98.6)
Other finance gains and losses	(2.6)	10.9	10.0
<b>Adjusted EBT*</b>	<b>(137.1)</b>	<b>(152.6)</b>	<b>(365.4)</b>
Adjusting items*	238.3	8.4	12.5
<b>EBT*</b>	<b>101.2</b>	<b>(144.2)</b>	<b>(352.9)</b>
Tax*	(2.4)	0.6	0.2
<b>Profit/(loss) after tax*</b>	<b>98.8</b>	<b>(143.6)</b>	<b>(352.7)</b>

# Appendix 2 - Pro-forma financial information

Balance Sheet			
£m	1H25	1H24	FY24
<b>Assets</b>			
Goodwill	145.2	157.9	158.2
Other intangible assets	525.4	469.5	496.5
Property, plant and equipment	1,417.9	1,571.6	1,501.5
Right-of-use assets	196.8	209.0	198.3
Net investment in leases	148.5	160.7	155.0
Investment in joint venture and associate	753.1	786.4	765.5
Trade and other receivables	184.4	318.1	220.6
Cash and cash equivalents	745.8	669.1	732.5
Other financial assets	212.5	232.3	211.8
Inventories	58.0	48.9	39.8
Other Assets	7.0	19.0	8.2
<b>Total assets</b>	<b>4,394.6</b>	<b>4,642.5</b>	<b>4,487.9</b>
<b>Liabilities</b>			
Contract liabilities	(559.0)	(507.9)	(561.7)
Trade and other payables	(265.2)	(242.6)	(248.4)
Borrowings	(1,484.6)	(1,388.6)	(1,386.7)
Lease liabilities	(310.2)	(321.3)	(311.7)
Other Liabilities	(25.7)	(28.6)	(26.1)
<b>Total liabilities</b>	<b>(2,644.7)</b>	<b>(2,489.0)</b>	<b>(2,534.6)</b>
<b>Net assets</b>	<b>1,749.9</b>	<b>2,153.5</b>	<b>1,953.3</b>

## Appendix 2 - Pro-forma financial information

Cash flow statement			
£m	1H25	1H24	FY24
Adjusted EBITDA*	91.8	52.0	112.3
Movement in contract liabilities	41.1	23.4	99.2
Other working capital movements	(17.5)	(39.8)	17.6
Finance costs paid	(48.0)	(23.6)	(46.2)
Taxation received	0.2	(2.9)	(7.7)
Adjusting items*	34.4	41.5	83.1
Other non-cash items	(13.9)	(10.3)	(5.8)
<b>Operating cash flow</b>	<b>88.1</b>	<b>40.3</b>	<b>252.5</b>
Capital expenditure	(171.3)	(211.2)	(393.4)
Dividend from joint venture	-	-	2.8
Net proceeds from interest-bearing loans and borrowings	88.3	0.2	26.8
Repayment of lease liabilities	(15.8)	(15.5)	(32.6)
Net proceeds from share issues	0.8	1.1	4.6
Other investing and financing activities	28.3	46.7	67.2
<b>Movement in cash and cash equivalents (excl. FX changes)</b>	<b>18.4</b>	<b>(138.4)</b>	<b>(72.1)</b>
Effect of changes in FX rates	(5.1)	(1.3)	(4.2)
<b>Movement in cash and cash equivalents (incl. FX changes)</b>	<b>13.3</b>	<b>(139.7)</b>	<b>(76.3)</b>
Cash and cash equivalents at beginning of period	732.5	808.8	808.8
Movement in cash and cash equivalents (incl. FX changes)	13.3	(139.7)	(76.3)
<b>Cash and cash equivalents at end of period</b>	<b>745.8</b>	<b>669.1</b>	<b>732.5</b>

## Appendix 2 - Pro-forma financial information

Investment in associate			
£m	1H25	1H24	FY24
<b>Assets</b>			
Investment brought forward	758.5	790.7	790.7
50% Ocado Group share of loss after tax	(12.5)	(14.0)	(32.2)
<b>Investment carried forward</b>	<b>746.0</b>	<b>776.7</b>	<b>758.5</b>
<b>Adjusted EBITDA*</b>	33.2	20.7	44.6
Depreciation and amortisation	(31.6)	(29.9)	(59.7)
Net finance costs	(18.8)	(16.5)	(33.4)
<b>Operating profit/(loss) before adjusting items</b>	<b>(17.2)</b>	<b>(25.7)</b>	<b>(48.5)</b>
Adjusting items	(7.8)	(2.2)	(15.8)
Taxation	-	-	-
<b>Loss after tax</b>	<b>(25.0)</b>	<b>(27.9)</b>	<b>(64.3)</b>
50% Ocado Group share of loss after tax	(12.5)	(14.0)	(32.2)
Reported as Ocado Group's share of JV results*	(8.6)	(12.9)	(24.3)
Reported in adjusting items	(3.9)	(1.1)	(7.9)