Final Results

,

RNS Number : 4387W
Ocado Group PLC
31 January 2012

OCADO GROUP PLC
Preliminary results for the 52 weeks ended 27 November 2011

Growing sales, increasing capacity, supporting future growth

31 January 2012 - Ocado Group plc ("Ocado") today announces its unaudited preliminary results for the 52 weeks ended 27 November 2011.

Key financials

- Gross sales[1] increased 16.6% to £642.8 million (2010: £551.1 million)
- EBITDA[2] increased by 26.6% to £27.9 million (2010: £22.0 million)
- EBITDA[3] margin increased from 4.3% to 4.7%
- Net debt of £19.2 million (2010: net cash of £80.5 million)
- Cash and cash equivalents at 27 November 2011 of £92.1 million (2010: £154.6 million, including treasury deposits)

Statutory highlights

- Revenue increased 16.0% to £598.3 million (2010: £515.7 million)
- Operating profit of £1.1 million (2010: operating loss of £5.4 million)
- Loss before tax reduced by 80.2% to £2.4 million (2010: £12.2 million)

Operating highlights

- Average orders per week increased by 18.6% to 110,219 (2010: 92,916)
- Average order size decreased by 1.7% to £112.15 (2010: £114.06)
- Items delivered exactly as ordered were 98.3% in the period (2010: 99.0%)
- Deliveries on time or early were 92.3% in the period (2010: 94.9%)
- Customer demand during the year continued to exceed Ocado's operational capacity
- Hatfield Customer Fulfilment Centre ("CFC1") capacity significantly increased to deliver 131,381 orders in peak week
- Capital investment is continuing to increase capacity at Hatfield
- At the Dordon Customer Fulfilment Centre ("CFC2"), the building, services and ancillary infrastructure are substantially complete
- At CFC2, equipment installation is advancing well; the project is on budget and on time to open in Q1 2013
- Use of mobile devices continued to increase; mobile devices used in 18% of customer checkouts at the end of 2011, up from 12% since the beginning of the year
- Ocado's own-label range at year end comprised 620 products, up from 250 products in 2010; found in 70% of customer orders at year end

Tim Steiner, Chief Executive Officer of Ocado, said:

"Against the backdrop of a weak UK economy, we have continued to see the development of the online grocery retail market. We believe this growth is evidence of a structural shift in consumer behaviour and we will continue to see an expansion of the online grocery retail market. We will continue to pursue our existing strategy in 2012 to improve what we offer our customers and increase our capacity to meet growing demand. It is our mission to make sure that customers continue to regard Ocado as the home of the market-leading offer in online grocery shopping."

Andrew Bracey, Chief Financial Officer of Ocado, said:

"With a sales increase of 16.6% in 2011, we are confident that Ocado grew faster than other players in the sector. We also ended the year with a strong cash position of £92.1 million. Because of our growing competitive advantage online we are well placed to deliver for shareholders as well as customers."

Results Presentation

A results presentation will be held for investors and analysts at 9.30am today at the offices of M:Communications, 11th floor, 1 Ropemaker Street, London, EC2Y 9AW. Presentation materials will be available online at results11.ocadogroup.com.

Contacts

- Tim Steiner, Chief Executive Officer on 020 7920 2330 today and 01707 228 000
- Andrew Bracey, Chief Financial Officer on 020 7920 2330 today and 01707 228 000
- David Hardiman-Evans, Head of Investor Relations on 020 7920 2330 today and 01707 228 000
- Ben Lovett, Senior Communications Manager on 01707 227 943
- Nick Miles, Ann-marie Wilkinson or Charlotte Kirkham at M:Communications on 020 7920 2330

Notes

1. Gross sales include revenue plus VAT and marketing vouchers.
2. EBITDA is a non-GAAP measure which we define as earnings before net finance cost, taxation, depreciation, amortisation, impairment and exceptional items.
3. EBITDA margin is calculated on revenue.

Chief Executive Officer's Review

During the past year, Ocado has made significant progress in growing sales and increasing capacity to support future growth. Against the background of the weak UK economy, gross sales have grown by 16.6%. We are very grateful to our customers for their loyalty and support.

Market development

The significance of the UK online grocery market, while still in its relative infancy, is now recognised by most major grocery retailers. Customers continue to migrate from traditional grocery shopping to online. This is borne out by the fact that in 2011, average orders per week at Ocado increased by 18.6% from 92,916 to 110,219. A recent report from the Institute of Grocery Distribution forecasts that the UK online grocery market will reach £11 billion of sales by 2016. We believe that the biggest threat to the growth of the online market is under-investment in capacity - retailers will not be able to service nor benefit from this increasing customer demand unless they invest in online capacity.

Competition in the online grocery sector is as strong as the traditional store-based sector, and will almost certainly increase. We believe the most effective way for Ocado to acquire new customers and retain existing customers is to continue to develop our offer. We have worked hard as always, to improve this on many levels and we continue to innovate.

Capacity expansion

This year saw significant progress in developing CFC1 towards its ultimate capacity of 180,000 orders per week. Investment has been made in a major upgrade to the functionality of the proprietary software that runs the warehouse operation; in additional storage, picking and tote conveyor capacity; and in the power infrastructure of CFC1. In 2012 we plan to make further investment in CFC1 with the aim of taking capacity to over 160,000 orders per week by the end of the year.

As we have said in previous trading updates, increasing the capacity of CFC1 to cope with the rate of sales growth has presented operational challenges. During the year several major construction projects have been carried out in the middle of CFC1 whilst the picking of groceries has continued, and I give credit for this to the planning and perseverance of our engineering and CFC1 teams. We temporarily reduced our product range to approximately 20,000 lines at the year end to create space for construction of additional automation. In H2 2011 we hired additional temporary staff and reintroduced some manual trolley-picking to provide a short-term increase in operational capacity. As a result of these changes, CFC1 efficiency measured in units per hour ("UPH") dropped by 8.2% from 121 UPH to 111 UPH. As new equipment becomes operational in CFC1 over the next 12 months, we expect to see a rise in efficiency toward our long-term target of 180 UPH.

Work is advancing well at CFC2 in Dordon, Warwickshire. The construction of the building, services and ancillary infrastructure is substantially complete and equipment installation has started. It remains on budget and on time to open in Q1 2013. Systems testing is currently planned to start in mid-2012, with initial operations scheduled to commence in early 2013, giving us a six month testing and commissioning window. We believe CFC2 will represent the single biggest increase in capacity by a grocery retailer for the online grocery market in the UK. It is a key driver in securing Ocado's leading position in this fast growing market.

Customer demand
More customers are shopping online, and doing so more frequently, but basket size has declined slightly. Average order size during the year fell by 1.7% to £112.15 from £114.06. Most of this decrease is due to the shift of customers towards the Ocado Delivery Pass ("ODP"), one of our key customer loyalty schemes. There are two reasons for this: the majority of Ocado orders are now placed using the ODP scheme, and these customers have a higher overall spend as increased shopping frequency more than offsets the lower average basket for this customer group. Nevertheless it is also clear that Ocado customers are feeling the same squeeze on budgets that is affecting the British consumer elsewhere and towards the end of 2011 we began to see a slight change in product mix and baskets that are on average one item smaller.

Operating efficiency
Our delivery network's performance continued to improve throughout the year. We opened new spokes in Bristol and Wimbledon, and acquired a spoke site in Oxfordshire which opens today. The Bristol spoke has enabled us to expand our service coverage into the South West of England and South Wales. Whilst we already operate in Wimbledon, the new spoke has increased our capacity in the London area by around 17,000 orders per week. The opening of these spokes increased the operational efficiency of our existing delivery network.

The increasing scale of the business, combined with previous upgrades to routing software and van design have contributed to deliveries per van per week ("DPV/week") increasing by 8.7% to 145 DPV/week. During the year the peak was 165 DPV/week. The on-time delivery performance was 92.3%, down from 94.9% in the previous year, largely due to the impact of significant development works in CFC1.

Grocery range
We have continued to develop our grocery range and the Directors believe that Ocado now offers a grocery range equivalent in size to our largest store-based competitors. Our investment in CFC1 will enable us to grow this from the level of around 20,000 products we had at year end, to over 30,000 products over the next year. The Ocado own-label range has more than doubled during the year to 620 products. Our own-label range is comparable in price and quality to similar products of our major competitors and has proved very popular, with 70% of all baskets containing at least one Ocado own-label product. In addition, we have a growing number of specialist ranges such as Carrefour's "Reflets de France" range of authentic French produce, as well as leading organic suppliers such as Daylesford Organic and Laverstoke Park Farm.

Non-food business
In line with the objectives we set out at our IPO, we continue to expand our range of non-food items. We now have a dedicated non-food team in place to drive this forward. We plan to increase significantly our non-food range by the end of 2013.

Value
We continue to focus on offering greater value to an ever widening customer base. We have done this by investing in price in four main ways: increasing the number of products on promotion, continuing our Tesco price match to approximately 7,000 products, expanding the Ocado own-label range, and launching the Ocado Saving Pass ("OSP"). OSP is a discount system offering at least 10% off over 600 leading branded products, including products that are already price-matched to Tesco, in return for a small annual fee. All of this has been achieved while delivering the freshest produce to customers through our shorter supply chain, and our product life guarantee.

Technology and innovation - website and mobile interfaces
The launch of Ocado's latest Webshop was completed in Q1 2011. It proved to be very successful, with excellent customer feedback. The Webshop enabled customers to shop up to 25% faster than before. We are continually making regular enhancements to our Webshop and using our technological base to improve the customer experience and service. We launched "shop in shop", allowing suppliers to showcase their specific ranges in their own dedicated section of the Webshop. Checkouts via mobile devices grew to 18% of checkouts by the end of the period, up from 12% at the beginning of the year. In addition to enhancing the functionality and usability of the existing Ocado apps available for the iPhone, the iPad and the Android platform, we developed Ocado apps for the Blackberry and the Windows Phone 7 mobile devices. Other software developments included our "One-Click Additions" feature, allowing customers on mobile devices to add a single product (or basket) to an existing delivery without needing to check out again. We believe Ocado is the only UK supermarket to offer customers full shopping functionality on all leading smartphone devices. We also implemented a new CRM platform to improve the efficiency of our call centre and provide substantial benefits to customer service. Our software development achievements were recognised with Ocado being awarded a Grocer Gold Award for Consumer Initiative of the Year in 2011.

People and recognition

The key to our success is the energy and commitment of nearly 6,000 employees in different areas of the business. I want to recognise the tremendous efforts made by them throughout the year. Our customers and industry observers regularly comment on the outstanding service provided by our delivery team of over 2,000 Customer Service Team Members. The measures taken by Ocado to make its delivery vehicles safe were again recognised in 2011 by Ocado winning for the second year running the Safe Vehicles Award at the Fleet Safety Forum Awards, organised by road safety charity Brake. During the period Ocado also won the Fleet Van Operator of the Year at the Fleet Transport Awards.

The overall standard of the business was again recognised with our selection as a finalist for the Etailer of the Year award at the 2011 Oracle World Retail Awards, and being voted the favourite online supermarket in the Which? Magazine reader surveys.

In November 2011, we signed a voluntary union recognition agreement with USDAW for Ocado's hourly paid employees at all our current operational sites. USDAW representatives will participate on our existing Ocado Council to voice the views of the employees they represent. The Ocado Council continues to be the forum that we use to consult with our employees.

Change of Directors

On 23 January 2012, Ocado announced that Andrew Bracey intended to resign from the Board, and as Chief Financial Officer of the Group. He will remain with the Group to complete the year end audit and the Annual Report process, and is expected to leave in April 2012. We are grateful to Andrew for his vital contribution at the IPO and during our time as a public company. A process is underway to find a new Chief Financial Officer. David Young also indicated his intention to retire from the Board at the next AGM. David joined the board of Ocado as a Non-Executive Director in October 2000 and has provided invaluable advice to the Company as it has grown from a small business to a FTSE 250 listed company.

On 23 January 2012 we also welcomed Mark Richardson to the Board into the newly created role of Operations Director. Mark was previously Ocado's Head of Technology. He is now responsible for the day-to-day running of the Ocado operation, including customer fulfilment centres, logistics developments, business planning, engineering and IT. Also as of this date, Jason Gissing has taken on the new Board position of Commercial Director, with responsibility for all our grocery retail activities. In addition to his current role as Director of Legal and Business Affairs, Neill Abrams has assumed responsibility for Human Resources.

A further strengthening of Ocado's Board is the appointment of Wendy Becker as an independent Non-Executive Director in March 2012. Wendy has significant commercial experience as a result of past roles as Group Chief Marketing Officer at Vodafone and Managing Director of TalkTalk Telecom, having previously been the Partner leading McKinsey's consumer practice. Currently Wendy is a Non-Executive Director at Whitbread and a trustee of Cancer Research UK. Wendy will also join Ocado's Nomination Committee, and is expected to chair the Company's Remuneration Committee when David Young retires.

Current trading and outlook

Against the backdrop of the weak UK economy, we have continued to see the development of the online grocery retail market. We believe this growth is evidence of a structural shift in consumer behaviour and we will continue to see an expansion of the online grocery market. We believe Ocado is well positioned to capture this growth as the market-leading offer in online grocery shopping.

Ocado achieved gross sales growth of 16.6% in 2011, during a period when we experienced capacity constraints at CFC1. Our growth has continued into the 2012 financial year, and we expect sales growth in the first quarter to be around 10%, broadly in line with Q4 2011. Given the sales growth profile we experienced in 2011 as a result of capacity constraints, we expect our growth rate to improve as the year progresses.

In 2012 we will continue with our existing strategy to improve what we offer our customers, to complete the capacity expansion work at CFC1 and to continue the build, commissioning and testing of CFC2. We will focus on improving the levels of service, beyond that which we gave our customers in the second half of 2011.

It is our mission to make sure that customers continue to regard Ocado as the home of the market-leading offer in online grocery shopping. We will continue to provide for and capture the growth of this market sector. The operational leverage we have in our business positions us strongly to benefit from increased scale to achieve a level of profitability that satisfies all stakeholders in the business.

Chief Financial Officer's Review

The historic trend of sales growth and further improvement in operational profitability continued in 2011. Gross sales grew by 16.6% compared to 2010 and EBITDA margin as a percentage of revenue increased from 4.3% to 4.7%.

The balance sheet continues to be strong with net assets of £172.9 million, an increase of £1.1 million on 2010. Cash was well controlled in the period with net cash from operating activities of £20.1 million. At 27 November 2011 the Group had net debt of £19.2 million as it began to utilise part of the £100 million credit facility in order to further expand the business. Cash and cash equivalents at the year end were £92.1 million.

Despite the uncertainty of the UK economic environment, the strength of the period end balance sheet combined with the operational improvements and continued sales growth leaves the Group well placed moving into 2012.

Revenue
Gross sales were up 16.6% to £642.8 million for the period. Growth continued to be driven by an increase in average orders per week to 110,219 from 92,916, an increase of 18.6%. This was offset by a slight decrease in the average order size of 1.7% to £112.15, mostly due to an increasing number of customers signing up to the Ocado Delivery Pass. The number of active customers increased by 13.5% to 298,000 at the end of the year. Revenue grew by 16.0 % to £598.3 million. Spend on marketing vouchers, at £8.0 million equated to 1.3% of revenue, down from 1.6% in 2010 due to reduced use of vouchers as a marketing tool.

Gross profit
Gross profit increased 14.3% to £184.8 million; this equates to a 47 basis points decrease in gross margin percentage over the period to 30.9 %. The decrease in gross margin was driven by a decrease in delivery income per order, changes in product mix and increases in product sourcing costs, promotional activity and post-delivery adjustments during the period. The increased post-delivery adjustment costs were primarily due to the capacity constraints experienced, and have since year end returned to previous levels. The reduction in gross margin is mitigated by increased other income outlined below.

Other income increased significantly by 101.0% to £12.6 million. This increase was driven by the increased sale of space on our new Webshop which was launched in the first quarter of 2011. In addition, a number of new initiatives launched in the second half of the period such as "shop in shop", which provides suppliers with the ability to have their own dedicated shop within our Webshop, have enabled increased revenue to be generated.

Operating costs
Distribution costs at £151.7 million, fell as a percentage of revenue from 25.8% in 2010 to 25.4% in 2011. This represented an increase of 14.2% on the prior period. The two major components of distribution costs are CFC1 costs and trunking and delivery costs. CFC1 costs fell as a percentage of revenue from 11.5% in 2010 to 11.3% in 2011, this represented an increase of 13.9% on the prior period. Variable CFC1 costs increased slightly faster than revenue as a result of the increased labour required to mitigate temporary capacity constraints. However, the operating leverage of the fixed cost base on increased volume combined with some savings in the fixed cost base meant that total CFC1 costs fell as a percentage of sales. Trunking and delivery costs fell as a percentage of revenue from 13.2% in 2010 to 12.9% in 2011, this represented an increase of 13.8% on the prior period with productivity gains more than offsetting inflationary pressures. Administrative expenses, including marketing costs, increased by 20.6% to £44.5 million, and increased by 28 basis points as a percentage of revenue to 7.4% largely due to an increase in other marketing activity to partly complement the use of vouchers.

Operating profit/loss
Operating profit for the period was £1.1 million, compared to an operating loss of £5.4 million in 2010. This improvement is primarily attributable to the growth in revenue, contributing to profit and enabling greater operating efficiencies.

Net finance costs
The reduction in net finance costs of 49.0% to £3.5 million is largely the result of the repayment of four long-term loans in the second half of 2010. A large portion of the current period borrowing costs under the £100 million credit facility remain on the balance sheet as they have been accounted for as transaction costs and will affect profit or loss over the remaining period of the loan, or will be capitalised to property, plant and equipment to the extent that drawdowns directly finance qualifying assets. The reduction in net finance costs is also due to increased finance income on cash and cash equivalents on a higher average cash balance throughout the period compared to 2010.

Loss before tax
Loss before tax for the period was £2.4 million, an improvement of £9.8 million against 2010.

Taxation
Due to the availability of capital allowances and loss relief, the Group did not pay corporation tax during the year. A deferred tax credit of £1.9 million was recognised during the period as we begin to recognise more of the tax losses available for use against future taxable profits. Ocado had approximately £278.7 million of unutilised carried forward tax losses at the end of the period.

Loss per share
Basic and diluted loss per share decreased from 1.63p to 0.10p, primarily due to the improved financial performance of the Group.

Cashflow
Net operating cashflow before finance costs increased to £26.4 million, up 42.2% from £18.5 million in 2010. This increase is primarily driven by an increase in EBITDA and the fall away of the 2010 IPO costs. The net movement in working capital was an outflow of £2.6 million (2010: £0.4 million). The increase in trade and other receivables was due to amounts outstanding at the period end in relation to other income and an increase in VAT receivable due to the volume of invoices relating to capital projects in progress, this offset a significant increase in trade and other payables arising from business growth and capital projects in progress.

Balance sheet
The Group had cash and cash equivalents of £92.1 million at the period end, this was down 40.4% from the 28 November 2010 amount which included treasury deposits, due to the continued capital investment required to expand the business. The Group had net debt of £19.2 million at 27 November 2011 (2010: net cash of £80.5 million) as it began to draw on the £100 million credit facility to assist in funding capital investment. At year end Ocado has drawn £40.2 million of this facility. Total undrawn facilities at 27 November 2011, including this facility, were £78.8 million (2010: £117.3 million)

During the period the Group agreed with its banks to increase one of its covenant ratios in the £100 million credit facility for the remainder of the life of the facility, which runs to January 2014. Given the current difficult economic climate the Group continues to monitor closely its liquidity position for a range of scenarios for revenues, cost performance and capital spend.

Capital investment
In the period Ocado invested £126.1 million in capital items, an increase of 260% on the comparative period. Of this amount, £27.7 million was spent on projects at the existing CFC1 in order to expand capacity, the benefits of which will be realised from 2012 onwards. The amount spent on CFC2 in 2011 was £72.6 million including the acquisition of land. The work schedule and costs on CFC2 are in line with expectations. The project is expected to complete in the first quarter of 2013. The investment in new vehicles in 2011 was £7.1 million. Capital expenditure on the expansion of the delivery network was £4.7 million. Two new spokes opened in the period, both of which are leasehold sites. One further freehold site was purchased and partially developed in the period. The Group continues to develop the majority of its own software, and during the period £8.2 million of internal development costs were capitalised as intangible assets.

Key performance indicators
The following table sets out a summary of selected unaudited operating information for FY11 and FY10:

	FY11 (unaudited)	FY10 (unaudited)	% Change
Average orders per week	110,219	92,916	18.6%
Average order size (£)(1)	112.15	114.06	(1.7%)
CFC efficiency (units per hour)(2)	111	121	(8.2%)
Average deliveries per van per week (DPV/week)	145	133	8.7%
Average product wastage (% of revenue)(3)	0.70	0.64	n/a
Items delivered exactly as ordered (%)(4)	98.3	99.0	n/a
Deliveries on time or early (%)	92.3	94.9	n/a

Source: The information in the table above is derived from information extracted from management accounts and internal financial and operating reporting systems and is unaudited.
(1) Average retail value of goods a customer receives (including VAT and delivery charge) per order.
(2) Measured as units dispatched from the CFC per hour worked by CFC operational personnel.
(3) Value of products purged for having passed Ocado's "use by" life guarantee, divided by revenue.
(4) Percentage of all items delivered exactly as ordered, i.e. the percentage of items neither missing nor substituted.

Cautionary statement
Certain statements made in this announcement are forward-looking statements. Such statements are based on current expectations and are subject to a number of risks and uncertainties that could cause actual events

or results to differ materially from any expected future events or results referred to in these forward-looking statements. They appear in a number of places throughout this announcement and include statements regarding our intentions, beliefs or current expectations and those of our officers, directors and employees concerning, amongst other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the business we operate. Unless otherwise required by applicable law, regulation or accounting standard, we do not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise.

Consolidated income statement (unaudited)
for the 52 weeks ended 27 November 2011

	Notes	52 weeks ended 27 November 2011 £'000	52 weeks ended 28 November 2010 £'000
Revenue	2.2	598,309	515,688
Cost of sales		(413,551)	(354,043)
Gross profit		184,758	161,645
Other income		12,550	6,245
Distribution costs		(151,725)	(132,809)
Operating profit before administrative expenses and exceptional items		45,583	35,081
Administrative expenses		(44,511)	(36,895)
Exceptional items		-	(3,542)
Operating profit/(loss)		1,072	(5,356)
Finance income	4.3	1,168	1,502
Finance costs	4.3	(4,663)	(8,357)
Loss before tax		(2,423)	(12,211)
Taxation		1,920	5,000
Loss for the period attributable to the owners of the parent†		(503)	(7,211)

Loss per share		pence	pence
Basic and diluted loss per share	2.3	(0.10)	(1.63)

† **Non-GAAP measure: Earnings before interest, taxation, depreciation, amortisation, impairment and exceptional items (EBITDA)**

	Notes	52 weeks ended 27 November 2011 £'000	52 weeks ended 28 November 2010 £'000
Operating profit/(loss)		1,072	(5,356)
Adjustments for:			
Depreciation of property, plant and equipment	3.2	21,261	19,333
Amortisation expense	3.1	5,460	4,474
Impairment of property, plant and equipment	3.2	76	14

Exceptional items	-	3,542
Earnings before interest, taxation, depreciation, amortisation, impairment and exceptional items (EBITDA)	27,869	22,007

Consolidated statement of comprehensive income (unaudited)
for the 52 weeks ended 27 November 2011

	52 weeks ended 27 November 2011 £'000	52 weeks ended 28 November 2010 £'000
Loss for the period attributable to the owners of the parent	(503)	(7,211)
Other comprehensive income/(expense):		
Cash flow hedges		
- Gains arising on forward foreign exchange contracts	568	818
- Gains transferred to property, plant and equipment	(1,232)	(92)
- Losses arising on interest rate swaps	(52)	-
Foreign exchange loss on translation of foreign subsidiary	(1)	-
Other comprehensive (expense)/income for the period, net of tax	(717)	726
Total comprehensive expense for the period attributable to the owners of the parent	(1,220)	(6,485)

Consolidated balance sheet (unaudited)
as at 27 November 2011

	Notes	27 November 2011 £'000	28 November 2010 £'000
Non-current assets			
Intangible assets	3.1	13,233	8,069
Property, plant and equipment	3.2	194,114	100,031
Deferred tax asset		9,615	7,300
Available-for-sale financial asset		395	395
		217,357	115,795
Current assets			
Inventories		14,310	12,480
Trade and other receivables		37,885	18,569
Derivative financial instruments		11	472
Short-term investment		-	30,000
Cash and cash equivalents		92,102	124,639
		144,308	186,160
Total assets		361,665	301,955
Current liabilities			
Trade and other payables		(75,555)	(55,491)

Borrowings	4.1	(3,270)	(2,282)
Obligations under finance leases	4.1	(19,643)	(16,485)
Derivative financial instruments		(318)	-
Provisions		(686)	(115)
		(99,472)	(74,373)
Net current assets		44,836	111,787
Non-current liabilities			
Borrowings	4.1	(45,793)	(9,774)
Obligations under finance leases	4.1	(42,561)	(45,573)
Provisions		(555)	(446)
Deferred tax liability		(395)	-
		(89,304)	(55,793)
Net assets		172,889	171,789
Equity			
Share capital	4.4	11,167	11,068
Share premium	4.4	213,783	206,094
Treasury shares reserve	4.4	(53,805)	(47,741)
Reverse acquisition reserve	4.4	(116,230)	(116,230)
Other reserves	4.4	9	726
Retained earnings		117,965	117,872
Total equity		172,889	171,789

Consolidated statement of cash flows (unaudited)
for the 52 weeks ended 27 November 2011

	Notes	52 weeks ended 27 November 2011 £'000	52 weeks ended 28 November 2010 £'000
Cash flows from operating activities			
Loss before tax		(2,423)	(12,211)
Adjustments for:			
- Depreciation of property, plant and equipment	3.2	21,261	19,333
- Amortisation expense	3.1	5,460	4,474
- Impairment of property, plant and equipment	3.2	76	14
- Loss/(profit) on disposal of property, plant and equipment		38	(63)
- Provision for dilapidations expense		109	80
- Provision for insurance claims		571	115
- Share-based payments charge		596	320
- Foreign exchange movements		(265)	-
- Finance income	4.3	(1,168)	(1,502)
- Finance costs	4.3	4,663	8,357
Changes in working capital:			
- Movement in inventories		(1,830)	(3,267)
- Movement in trade and other receivables		(17,769)	(1,897)
- Movement in trade and other payables		17,048	4,791

Cash generated from operations		26,367	18,544
Interest paid on borrowings and facility fees		(6,219)	(10,319)
Net cash flows from operating activities		20,148	8,225
Cash flows from investing activities			
Purchase of property, plant and equipment		(105,184)	(14,681)
Proceeds from sale of property, plant and equipment		-	87
Purchase of intangible assets		(8,980)	(5,850)
Decrease/(increase) in short-term investment		30,000	(30,000)
Interest received		949	167
Net cash flows from investing activities		(83,215)	(50,277)
Cash flows from financing activities			
Proceeds from the issue of ordinary share capital net of transaction costs		1,248	210,104
Proceeds from borrowings		39,291	11,374
Repayment of borrowings		(2,284)	(54,063)
Proceeds from asset based financing arrangements		9,889	1,676
Repayments of obligations under finance leases		(19,013)	(15,417)
Settlement of forward foreign exchange contracts		1,134	-
Net cash flows from financing activities		30,265	153,674
Net (decrease)/increase in cash and cash equivalents	4.2	(32,802)	111,622
Cash and cash equivalents at the beginning of the period		124,639	13,017
Exchange adjustments		265	-
Cash and cash equivalents at the end of the period		92,102	124,639

Consolidated statement of changes in equity (unaudited) for the 52 weeks ended 27 November 2011

		Notes	Share capital £'000	Share premium £'000	Treasury shares reserve £'000	Reverse acquisition reserve £'000	Other reserves £'000	(Acc…
Balance at 29 November 2009			40	310,836	-	-	-	(34
Loss for the period			-	-	-	-	-	(
Other comprehensive income / (expense):								
Cash flow hedges								
-	Gains arising on foreign exchange contracts	4.4(d)	-	-	-	-	818	
-	Gains transferred to property, plant and equipment	4.4(d)	-	-	-	-	(92)	
Total comprehensive income / (expense) for the period			-	-	-	-	726	(
Transactions with owners:								
-	Issue of ordinary shares in Ocado Limited	4.4	3	49,443	(47,741)	-	-	
-	Cancellation of Ocado Limited ordinary and preference shares	4.4(a)	(43)	-	-	-	-	

- Issue of ordinary and convertible preference shares by Ocado Group plc	4.4(b)	476,509	-	-	(476,509)	-	
- Ocado Group plc capital reduction	4.4(b)	(467,846)	-	-	-	-	4
- Reverse acquisition of Ocado Limited by Ocado Group plc	4.4(c)	-	(360,279)	-	360,279	-	
- Issue of ordinary shares by Ocado Group plc on IPO	4.4	2,380	211,862	-	-	-	
- Ordinary shares issue costs	4.4	-	(6,881)	-	-	-	
- Issue of ordinary shares in Ocado Group plc	4.4	25	1,113	-	-	-	
- Share-based payments charge		-	-	-	-	-	
Total transactions with owners		11,028	(104,742)	(47,741)	(116,230)	-	4
Balance at 28 November 2010		11,068	206,094	(47,741)	(116,230)	726	1
Loss for the period		-	-	-	-	-	
Other comprehensive expense:							
Cash flow hedges							
- Gains arising on foreign exchange contracts	4.4(d)	-	-	-	-	568	
- Loss arising on interest rate swap	4.4(d)	-	-	-	-	(52)	
- Gains transferred to property, plant and equipment	4.4(d)	-	-	-	-	(1,232)	
Translation of foreign subsidiary	4.4(d)	-	-	-	-	(1)	
Total comprehensive expense for the period		-	-	-	-	(717)	
Transactions with owners:							
- Issue of ordinary shares	4.4	99	7,652	(6,308)	-	-	
- Disposal of treasury shares	4.4	-	37	244	-	-	
- Share-based payments charge		-	-	-	-	-	
Total transactions with owners		99	7,689	(6,064)	-	-	
Balance at 27 November 2011		11,167	213,783	(53,805)	(116,230)	9	1

Notes to the consolidated financial information

Section 1- Basis of preparation

General information

The financial information comprises the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of cash flows, consolidated statement of changes in equity and the related notes. The financial information for the 52 weeks ended 27 November 2011 is extracted from the unaudited consolidated financial statements. The financial information for the 52 weeks ended 28 November 2010 is derived from the statutory accounts.

The financial information in this preliminary results announcement does not constitute the Group's statutory accounts for the 52 weeks ended 27 November 2011 or the 52 weeks ended 28 November 2010 and does not constitute full accounts within the meaning of section 435 (1) and (2) of the Companies Act 2006. The statutory accounts for 2010 have been delivered to the Registrar of Companies, and those for 2011 will be delivered in due course. The auditors have reported on the statutory accounts for the 52 weeks ended 28 November 2010; their report was (i) unqualified, (ii) did not include a reference to a matter to which the auditors drew attention by way of an emphasis of matter without qualifying their report and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006. The statutory accounts for the 52 weeks ended 27 November 2011, on which the auditors have not yet reported, will be finalised on the basis of the financial information presented by the Directors in this announcement and will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

The financial year represents the 52 weeks ended 27 November 2011 (the prior financial year represents the 52 weeks ended
28 November 2010). The consolidated financial statements for the 52 weeks ended 27 November 2011 comprise the financial statements of Ocado Group plc (the "Company") and its subsidiaries (the "Group").

Basis of preparation
The financial information has been prepared in accordance with the Listing Rules and the Disclosure and Transparency Rules of the UK Financial Services Authority (where applicable), International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretation Committee (IFRIC) interpretations as endorsed by the European Union ("IFRS-EU"), and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The accounting policies applied are consistent with those described in the annual report and financial statements for the 52 weeks ended 28 November 2010 of Ocado Group plc. The Company's auditors have confirmed that they are not aware of any matter that may give rise to a modification to their audit report.

The financial information is presented in sterling, rounded to the nearest thousand (£'000) unless otherwise stated. It has been prepared under the historical cost convention, except for financial instruments that have been measured at fair value through profit and loss.

The financial information is prepared on the going concern basis, which assumes that the Group will continue to be able to meet its liabilities as they fall due for the foreseeable future.

Standards, amendments and interpretations adopted by the Group in 2010/11, or issued but not yet effective, and which have not been early adopted by the Group:
The Group has considered the following new standards, interpretations and amendments to published standards that are effective for the Group for the financial year beginning 29 November 2010 and concluded that they are either not relevant to the Group or that they would not have a significant impact on the Group's financial statements.

- IFRS 1, "First-time Adoption of International Financial Reporting Standards"
- IFRS 2, "Share Based Payments"
- IAS 7, "Statement of Cash Flows"
- IAS 17, "Leases"
- IAS 32, "Financial Instruments: Presentation"
- IFRIC 19, "Extinguishing Financial Liabilities with Equity Instruments"
- Amendments to various IFRSs and IASs arising from the IASB's annual improvements project

The following new standards, interpretations and amendments to published standards and interpretations have been issued but are not effective for the financial year beginning 29 November 2010 and have not been adopted early:

- IFRS 1, "First-time Adoption of International Financial Reporting Standards"
- IFRS 9, "Financial Instruments"
- IFRS 10, "Consolidated Financial Statements"
- IFRS 11, "Joint Arrangements"
- IFRS 12, "Disclosure of Interests in Other Entities"
- IFRS 13, "Fair Value Measurement"
- IAS 12, "Income Taxes"
- IAS 24, "Related Party Disclosures"
- IAS 27, "Consolidated and Separate Financial Statements"
- IAS 28, "Investments in Associates"
- Amendments to various IFRSs and IASs arising from the IASB's annual improvements project

Use of non-GAAP profit measures
The Directors believe that the EBITDA measure presented provides a clear and consistent presentation of the underlying performance of the Group. EBITDA is not a measure of operating performance in accordance with IFRS-EU. EBITDA should not be considered a substitute for gross profit/(loss), operating profit/(loss), profit/(loss) before tax, cash flow from operating activities or other income or cash flow statement data as determined in accordance with IFRS-EU, or as a measure of profitability or liquidity.

The Group defines EBITDA as earnings before net finance cost, taxation, depreciation of property, plant and equipment, amortisation expense, impairment of property, plant and equipment and exceptional items.

The adjustments made to reported loss before tax are set out below the income statement.

Section 2 - Results for the year

2.1 Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, as required by IFRS 8. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Directors.

The principal activity of the Group is managed as one segment and it does not split its activities into any further regional or product subdivisions in its internal management reporting, as any such split would not provide the Group's management with any meaningful information. Consequently all activities relate to this one segment.

The chief operating decision-maker's main indicator of performance is EBITDA, which is reconciled to operating profit/(loss) below the income statement.

2.2 Gross sales

	52 weeks ended 27 November 2011 £'000	52 weeks ended 28 November 2010 £'000
Revenue	598,309	515,688
VAT	36,508	27,285
Marketing vouchers	7,983	8,126
Gross sales	642,800	551,099

2.3 Loss per share

Basic loss per share is calculated by dividing the loss attributable to equity holders of the parent by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares held pursuant to the Group's joint share ownership scheme (the "JSOS") and accounted for as treasury shares.

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential shares. The Company has two categories of potentially dilutive shares, namely share options and shares held pursuant to the JSOS.

The calculation for the prior period basic and diluted loss per share reflects the conversion of the ordinary shares and preference shares from Ocado Limited to Ocado Group plc on a 1:100 basis on 9 February 2010.

There was no difference in the weighted average number of shares used for the calculation of basic and diluted loss per share as the effect of all potentially dilutive shares outstanding was anti-dilutive.

Basic and diluted loss per share has been calculated as follows:

	52 weeks ended 27 November 2011 000s	52 weeks ended 28 November 2010 000s
Issued shares at the beginning of the period	520,959	400,051
Effect of share options exercised in the period	619	927
Effect of treasury shares disposed of in the period	105	-
Effect of shares issued in the period	-	41,237
Weighted average number of shares at the end of the period	521,683	442,215
	£'000	£'000
Loss attributable to the owners of the parent	(503)	(7,211)

	pence	pence
Basic and diluted loss per share	(0.10)	(1.63)

Section 3 - Operating assets and liabilities

3.1 Intangible assets - Computer software

	27 November 2011 £'000	28 November 2010 £'000
Cost		
At the beginning of the period	34,362	28,503
Additions	2,381	717
Disposals	(29)	-
Internal development costs capitalised	8,243	5,142
At the end of the period	44,957	34,362
Accumulated amortisation		
At the beginning of the period	(26,293)	(21,819)
Disposals	29	-
Charge for the period	(5,460)	(4,474)
At the end of the period	(31,724)	(26,293)
Net book value		
At the end of the period	13,233	8,069

The net book value of computer software held under finance leases is analysed below:

	27 November 2011 £'000	28 November 2010 £'000
Cost	4,282	2,470
Accumulated amortisation	(2,674)	(2,404)
Net book value	1,608	66

The movement in cost includes assets of £0.2 million (2010: £nil) reclassified from owned assets to assets held under finance lease following asset based financing arrangements.

For the 52 weeks ended 27 November 2011, internal development costs capitalised were £8.2 million (2010: £5.1 million) and represented approximately 78% (2010: 88%) of expenditure on intangible assets and 7% (2010:15%) of total capital spend including property, plant and equipment.

3.2 Property, plant and equipment

	Land and buildings £'000	Fixtures, fittings, plant and machinery £'000	Motor vehicles £'000	Total £'000
Cost				
At 30 November 2009	35,335	112,478	22,638	170,451
Additions	3,079	15,348	10,723	29,150

Disposals	(173)	(1,483)	(5,936)	(7,592)
At 28 November 2010	38,241	126,343	27,425	192,009
Additions	59,158	49,179	7,121	115,458
Disposals	-	(499)	(2,995)	(3,494)
At 27 November 2011†	97,399	175,023	31,551	303,973
Accumulated depreciation and impairment				
At 30 November 2009	(9,746)	(57,927)	(12,526)	(80,199)
Charge for the period	(1,493)	(13,151)	(4,689)	(19,333)
Impairment	-	(14)	-	(14)
Disposals	149	1,483	5,936	7,568
At 28 November 2010	(11,090)	(69,609)	(11,279)	(91,978)
Charge for the period	(1,574)	(14,117)	(5,570)	(21,261)
Impairment	-	(76)	-	(76)
Disposals	-	499	2,957	3,456
At 27 November 2011	(12,664)	(83,303)	(13,892)	(109,859)
Net book value				
At 28 November 2010	27,151	56,734	16,146	100,031
At 27 November 2011	84,735	91,720	17,659	194,114

† Cost includes capitalised borrowing costs of £699,000 (2010:£147,000). Borrowing costs are capitalised on specific borrowings which are wholly attributable qualifying assets.

The net book value of fixed assets held under finance leases is analysed below:

	Land and buildings £'000	Fixtures, fittings, plant and machinery £'000	Motor vehicles £'000	Total £'000
At 28 November 2010				
Cost	26,509	57,685	26,455	110,649
Accumulated depreciation and impairment	(10,632)	(32,200)	(10,618)	(53,450)
Net book value	15,877	25,485	15,837	57,199
At 27 November 2011				
Cost	26,588	67,762	29,721	124,071
Accumulated depreciation and impairment	(11,958)	(38,465)	(12,260)	(62,683)
Net book value	14,630	29,297	17,461	61,388

The movement in cost includes assets of £9.7 million (2010: £2.1million) reclassified from owned assets to assets held under finance lease following asset based financing arrangements.

The impairment charge for fixtures, fittings, plant and machinery in all financial periods is in respect of superseded assets written off during the period.

Included within property, plant and equipment is capital work-in-progress for land and buildings of £60.0 million (2010: £1.8 million) and capital work-in-progress for fixtures, fittings, plant and machinery of £35.2 million (2010: £4.2 million).

Property, plant and equipment with a net book value of £66.7 million (2010: £10.3 million) has been pledged as security for the secured loans (Note 4.1). Included in this amount is £57.2 million (2010: £nil) relating to assets pledged as security for amounts already drawn down under the £100 million credit facility.

Section 4 - Capital structure and financing costs

4.1 Borrowings and leases

Borrowings

	Total	Less than one year	Between one year and two years	Between two years and five years
	£'000	£'000	£'000	£'000
As at 27 November 2011				
Secured loans	49,063	3,270	3,160	42,633
Total borrowings	49,063	3,270	3,160	42,633
As at 28 November 2010				
Secured loans	11,919	2,145	3,718	6,056
Unsecured loans	137	137	-	-
Total borrowings	12,056	2,282	3,718	6,056

Secured loans
The loans outstanding at period end can be analysed as follows:

Principal amount	Inception	Secured over	Current interest rate	Instalment frequency	Final payment due	Carrying amount as at 27 November 2011	Carrying amount as at 28 November 2010
£'000						£'000	£'000
8,000	May-07	Certain warehouse assets	Clearing bank base rate + 3.0%	Quarterly	Feb-15	5,579	7,158
1,530	Dec-06	Freehold property	Clearing bank base rate + 1.5%	Quarterly	Feb-12	803	956
1,466	Feb-09	Freehold property	LIBOR + 2.25%	Quarterly	Feb-12	1,063	1,210
2,848	Dec-09	Freehold property	LIBOR + 3.5%	Quarterly	Jan-13	2,328	2,595
40,234	Jul-10	Property, plant and equipment	LIBOR + 3.5%	Note [1]	Jan-14	39,290	-
						49,063	11,919

[1] No capital repayments are due on the £100 million credit facility until 5 January 2014. It is the Group's intention to refinance the facility at that time in accordance with the long-term capital management strategy of the Group. The carrying amount as at 27 November 2011 is net of capitalised transaction costs.

Unsecured loans
There were no unsecured loans outstanding at period end (2010: £0.1 million).

Obligations under finance leases

	27 November 2011	28 November 2010
	£'000	£'000

Obligations under finance leases due:		
Within one year	19,643	16,485
Between one and two years	18,127	16,121
Between two and five years	17,512	21,947
After five years	6,922	7,505
Total obligations under finance leases	62,204	62,058

	27 November 2011 £'000	28 November 2010 £'000
Minimum lease payments due:		
Within one year	23,072	20,087
Between one and two years	20,217	18,576
Between two and five years	20,019	24,546
After five years	7,921	9,459
	71,229	72,668
Less: future finance charges	(9,025)	(10,610)
Present value of finance lease liabilities	62,204	62,058
Disclosed as:		
Current	19,643	16,485
Non-current	42,561	45,573
	62,204	62,058

4.2 Analysis of net (debt)/cash

(a) Net (debt)/cash

	Notes	27 November 2011 £'000	28 November 2010 £'000
Current assets			
Cash and cash equivalents		92,102	124,639
Short-term investments		-	30,000
		92,102	154,639
Current liabilities			
Borrowings	4.1	(3,270)	(2,282)
Obligations under finance leases	4.1	(19,643)	(16,485)
		(22,913)	(18,767)
Non-current liabilities			
Borrowings	4.1	(45,793)	(9,774)
Obligations under finance leases	4.1	(42,561)	(45,573)
		(88,354)	(55,347)
Total net (debt)/cash		(19,165)	80,525

(b) Reconciliation of net cash flow to movement in net (debt)/cash

	27 November 2011	28 November 2010

	£'000	£'000
Net (decrease)/increase in cash and cash equivalents	(32,802)	111,622
Exchange adjustments	265	-
Net cash (inflow)/outflow from debt and lease financing	(27,883)	56,430
(Decrease)/increase in short-term investment	(30,000)	30,000
Non-cash movements:		
- Assets acquired under finance lease	(9,270)	(10,479)
(Increase)/decrease in net (debt)/cash in the period	(99,690)	187,573
Opening net cash/(debt)	80,525	(107,048)
Closing net (debt)/cash	(19,165)	80,525

4.3 Finance income and costs

	52 weeks ended 27 November 2011 £'000	52 weeks ended 28 November 2010 £'000
Interest on cash balances and short-term investment	1,164	557
Other interest	4	12
Fair value movement in derivative financial instruments	-	933
Finance income	1,168	1,502
Borrowing costs		
- Bank loans and overdrafts	(17)	(31)
- Obligations under finance leases	(4,080)	(4,356)
- Borrowings	(957)	(3,970)
Capitalised borrowing costs	552	-
Fair value movement in derivative financial instruments	(161)	-
Finance costs	(4,663)	(8,357)
Net finance costs	(3,495)	(6,855)

The current period fair value movement on the derivative financial instruments arose from fair value adjustments on the Group's cash flow hedges. The prior period fair value movement on the derivative financial instruments arose from fair value adjustments on warrant agreements.

4.4 Share capital and reserves

Share capital and reserves

	27 November 2011		28 November 2010	
	Number of shares	£'000	Number of shares	£'000
Authorised				
Ordinary shares of 2 pence each	600,000,000	12,000	600,000,000	12,000
	600,000,000	12,000	600,000,000	12,000

Allotted and fully paid

Ordinary shares of 2 pence each	558,362,139	11,167	553,428,201	11,068
	558,362,139	11,167	553,428,201	11,068

Included in the total number of ordinary shares outstanding above is 36,305,099 (2010: 32,476,700) ordinary shares held by the Group's employee benefit trust (see Note 4.4(a)).

The movements in the called up share capital and share premium accounts are set out below:

	Notes	Ordinary shares Number of shares	Ordinary shares £'000	Share premium £'000
At 28 November 2010		553,428,201	11,068	206,094
Allotted in respect of executive share ownership scheme		935,137	19	940
Allotted in respect of joint share ownership scheme	4.4(a)	3,990,799	80	6,704
Allotted in respect of sharesave scheme		602	-	1
Allotted in respect of non-employee share options		7,400	-	7
Disposal of treasury shares		-	-	37
At 27 November 2011		558,362,139	11,167	213,783

The ordinary shares held by the trustee of the Group's employee benefit trust pursuant to the joint share ownership scheme are treated as treasury shares in the Group's consolidated balance sheet in accordance with IAS 32 "Financial instruments: Presentation". These ordinary shares have voting rights but these have been waived by the trustee. The number of allotted, called up and fully paid shares, excluding treasury shares, at the end of each period differs from that used in the loss per share calculation in Note 2.3 as loss per share is calculated using the weighted average number of ordinary shares in issue during the period, excluding treasury shares.

The movements in reserves other than share premium are set out below:

	Notes	Treasury shares reserve £'000	Reverse acquisition reserve £'000	Fair value reserve £'000	Foreign currency translation reserve £'000
At 28 November 2010		(47,741)	(116,230)	726	-
Allotted in respect of joint share ownership scheme	4.4(a)	(6,308)	-	-	-
Disposal of treasury shares	4.4(a)	244	-	-	-
Fair value movement on derivative financial instrument	4.4(d)	-	-	(716)	-
Translation of foreign subsidiary		-	-	-	(1)
At 27 November 2011		(53,805)	(116,230)	10	(1)

(a) Treasury shares reserve

This reserve arose when the Group issued equity share capital under its JSOS, which is held in trust by the trustee of the Group's employee benefit trust. During the current period the Group issued a further 3,990,799 ordinary shares to the Group's employee benefit trust pursuant to a new phase of the Group's JSOS. The consideration paid is deducted from total shareholders' equity and classified as treasury shares on consolidation.

(b) Scheme of Arrangement and Capital Reduction

On 9 February 2010, pursuant to a scheme of arrangement, all of Ocado Limited's ordinary and convertible preference shares were cancelled. Immediately thereafter, Ocado Limited issued 100 ordinary shares to the Company for £1 and in consideration of that and of the cancellation of Ocado Limited's ordinary and preference shares, the Company issued 185,715,900 ordinary shares and 247,474,900 convertible preference shares on the basis of 100 ordinary and/or preference shares for each Ocado Limited ordinary share and/or preference share held. The effect of the scheme of arrangement was to replicate the shareholders' register of Ocado Limited at the Company level.

On 16 February 2010, pursuant to an order of the Court confirming the reduction of capital of the Company, the Company's share capital was reduced by decreasing the nominal value of each ordinary and convertible preference share issued pursuant to the Scheme of Arrangement from 110 pence to 2 pence. This created distributable reserves of £467.8 million.

(c) Reverse acquisition reserve

The acquisition by the Company of the entire issued share capital of Ocado Limited has been accounted for as a reverse acquisition under IFRS 3 (revised). Consequently the previously recognised book values and assets and liabilities have been retained and the consolidated financial information for the period to 28 November 2010 has been presented as if the Company had always been the parent company of the Group.

(d) Other reserves

Other reserves consist of the foreign currency translation reserve and the fair value reserve.

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of the Company's foreign subsidiary, Ocado Information Technology Limited, which is incorporated in Ireland and whose functional currency is the Euro.

The fair value reserve comprises gains and losses on movements in the Group's cash flow hedges.

Section 5 - Other notes

5.1 Related party transactions

Key management personnel
Only the Executive and Non-Executive Directors are deemed to be key management personnel. It is the Board who have responsibility for planning, directing and controlling the activities of the Group.

	27 November 2011 £'000	28 November 2010 £'000
Salaries and other short-term employee benefits	1,438	2,040
Share-based payments	130	176
	1,568	2,216

Other related party transactions with key management personnel made during the period are as follows:

	27 November 2011 £'000	28 November 2010 £'000
Purchase of goods		
- Company of a close family member of an Executive Director	-	42
Purchase of professional services		
- Non-Executive Directors	9	30
	9	72

All transactions are on an arms length basis and no period end balances have arisen as a result of these transactions.

At the end of the period key management personnel did not owe the Group any amounts (2010: £nil).

There were no other material transactions or balances between the Group and its key management personnel or members of their close family.

Investment
The Group holds a 25% interest in Paneltex Limited whose registered office is at Paneltex House, Somerden Road, Hull, HU9 5PE. The Group's interest in Paneltex Limited has not been treated as an associated undertaking as it does not have significant influence over Paneltex Limited.

The following transactions were carried out with Paneltex Limited:

	27 November 2011 £'000	28 November 2010 £'000
Sale of goods		
- Plant and machinery	34	94
- Other	2	-
Total sale of goods	36	94
Purchase of goods		
- Plant and machinery	32	220
- Consumables	167	143
Total purchase of goods	199	363
Amounts payable/(receivable) at the end of the period	24	(93)

5.2 Post balance sheet events

In December 2011, the Group drew down a further £7.6 million on the £100 million credit facility.

In January 2012, an order was placed with Mercedes-Benz for 50 delivery vans.

On 31 January 2012 Ocado opened a new spoke in Oxfordshire which will increase the delivery capacity in the Thames corridor and South Midlands.

Principal risks and uncertainties

Identifying and monitoring risks

The Group faces a number of risks and uncertainties that may have an adverse impact on the Group's operation, performance or future prospects. The Directors have overall responsibility for risk management and internal control systems.

The risks and uncertainties described below represent those which the Directors consider to be the most significant in achieving the potential success of the Group's strategy. However, these principal risks and uncertainties do not comprise all of the risks associated with the Group and are not set out in any order of priority. Additional risks and uncertainties currently not known to the Directors and/or which the Directors believe to be less material, may also have a material adverse effect on the Group's business, financial condition or future prospects. The relevant mitigating factors are also described below.

Risk area	Potential impact	Mitigation
Strategy		
Expansion of CFC1 and construction of CFC2	A critical part of the Group's strategy is to expand its operations in the UK by further developing CFC1 and building CFC2 at Dordon, Warwickshire to significantly increase its capacity to service customers. The Group is currently undertaking several capacity enhancing projects in CFC1 which are highly complex and can result in	Management seek to manage the timing, integration and testing of the CFC1 capacity projects so as to minimise operational disruption. The Group has employed additional labour at CFC1 to protect customer service levels during work to install further capacity. This increased labour is expected to be phased out as the installation works are completed.

Risk area	Potential impact	Mitigation
	operational difficulties whilst they are being tested and integrated into the current operation. Additional capacity projects will be needed in the future to realise CFC1's full capacity. While projects are undertaken these could have a negative impact on the operational efficiency of CFC1, customer fulfilment, delivery timeliness and ultimately the Group's financial performance. The Group's ability to develop CFC1 and replicate its business model in CFC2 cost-effectively and in a timely fashion will depend upon a variety of factors, notably: the Group's ability to hire and train employees to operate the CFCs; management resources; the Group's ability to write additional complex software systems to operate the CFCs; the Group's ability to roll out the business systems and infrastructure; the retention of reliable developers; and the availability of appropriate equipment and the contractors to design and install such equipment.	Construction of CFC2 is ongoing. The Group has a detailed plan for the management and resourcing of the CFC2 project and the Directors have oversight of the project to ensure that it can stay on schedule and within budget. The Directors are confident that the business systems of CFC1 can be replicated and enhanced in CFC2 (and in any further CFCs in the future) within the parameters of the capital expenditure budget set for the CFC2 project and that it can continue to successfully complete and integrate projects to expand CFC1.
Expansion of non-food product range	Part of the Group's strategy is to significantly expand its non-food product range. Demand from its customers for many categories of non-food products is relatively untested and significant customer demand will be needed in order to deliver the Group's anticipated profitable growth in non-food sales. The Group's capability to develop the non-food business cost-effectively and in a timely fashion in the medium term will depend on its ability to develop and integrate the necessary infrastructure and business systems needed to support the targeted diverse and large non-food product range.	The initial expansion of the non-food range will be into product categories that are adjacent to the existing Ocado product range, such as kitchenware, which the Directors anticipate can be largely supported by the Group's existing infrastructure and systems and expect will require limited capital expenditure. The Group has and will continue to retain, recruit and train the necessary employees to manage the non-food business and has some plans for implementing the necessary business systems and infrastructure to support the longer-term extension of the non-food range.
Operational		
Single CFC	The Group is dependent on the continued operation of CFC1 (and to a lesser extent, the spokes) in order to satisfy customer orders. Any disruption (such as a result of an IT failure or a fire) to the operation of CFC1 in particular, or a spoke may therefore have an adverse effect on the Group's financial position or affect the ability of the Group to economically deliver products to certain customers.	The Group has some documented disaster recovery procedures which are aimed at minimising certain possible disruptions to the business. In early 2012, the Group achieved the insurance industry recognised "Highly Protected Risk" status. CFC1 is protected by fire and security systems and has a full contingency plan to manage power outages. The Group also has insurance policies in place which cover business interruption to certain maximum levels. In addition, the eventual operation of CFC2 will limit, in part, the effect of any failure at CFC1. Spokes are able, to some extent, to serve geographies of neighbouring spokes.
Relationships with third parties		

Risk area	Potential impact	Mitigation
Relationship with Waitrose	Ocado's reputation and brand is based, at least in part, on its relationship with Waitrose. If the sourcing agreement with Waitrose were to end or if Waitrose were unable to source products for the Group, Ocado would need to engage additional personnel to: (i) find or create replacement own-label products; and (ii) find appropriate suppliers and negotiate equivalent prices itself.	The Group has a successful relationship with Waitrose which is now in its twelfth year. The sourcing agreement with Waitrose will continue this relationship until at least 2017. The Group is not particularly dependent on the Waitrose supply chain as about 84% of products are delivered directly to CFC1 by the relevant supplier or manufacturer.
	Other than with regard to non-grocery products, the sourcing agreement with Waitrose contains provisions which restrict the extent to which Ocado can source products other than from Waitrose, and the extent to which Ocado's range of Ocado own-label products may be expanded.	Ocado has about 620 Ocado own-label products and will further extend this range. The number of Ocado own-label products is closely monitored to ensure that the limits in the sourcing agreement are not exceeded. The Directors do not believe that the restrictions on Ocado own-label products will have a significant impact on the growth of the business or their intended expansion of the range of products stocked by Ocado.
	The Group is reliant on Waitrose for its sourcing and pricing of much of the Group's product range including accurately estimating and passing on the Group's share of supplier bonus and overrider payments.	The Group has reviewed the most significant of Waitrose's supplier arrangements to give it oversight of the supplier support payments and their allocation between Waitrose and Ocado for the financial year.
	If the parties terminate the sourcing agreement after certain competitors of Waitrose or John Lewis gain control of the Company, Ocado is obliged to pay Waitrose a maximum fee of £40 million.	
IT systems and security and intellectual property		
IT systems	The Group relies to a very significant degree on the efficient and uninterrupted operation of the internet and its IT and communications systems. The Group's business model relies on the complex integration of the Group's website, mobile apps, the highly automated CFC1, goods handling equipment and the order fulfilment and delivery operations. Operational problems in the Group's core systems and technologies (such as computer server or system failures, network outages, software performance problems or power failures) can result in customer orders being unable to be captured on the Group's website or processed through CFC1, or errors and delays in their delivery.	The Group has an IT strategy that is aimed at ensuring plans are in place to have information systems and new technology that provide the capabilities necessary for the Group to maintain the integrity and reliability of its business. The Group has disaster recovery plans to maintain the integrity of its IT infrastructure. The Group's IT systems are housed in a purpose-built data centre and it has a separate disaster recovery location which houses standby servers for all of the critical systems and live replica data storage systems. All critical communication links between CFC1 and the disaster recovery location are provided via two diversely routed fibre optic cables and the Group is provided with internet connectivity simultaneously by two major internet service providers.
IT security and fraud	If any compromise in the Group's IT security measures or payment processing systems were to occur, the Group's reputation may be harmed and it could lose its customers. The Group relies on third parties to provide payment processing services and is	The Group uses encryption and authentication technology to provide the security necessary to effect the secure transmission of information from its customers, such as card payments and to reduce possible fraud. The Group's customers' confidential data is protected by

Risk area	Potential impact	Mitigation
	exposed to typical fraud risk in relation to card payments. The Group is also subject to IT regulations and compliance requirements.	both physical and systems controls. The Group's Webshop is regularly tested for vulnerability by third parties from inside and outside the Ocado network. Relevant accounting, IT and other procedures and controls at all levels are clearly set out and some of which are audited across the business to reduce the risk of fraud. Ocado took significant steps in 2011 in its Payment Card Industry Data Security Standards ("PCI") compliance plan by moving all credit and debit card processing to an external payment service provider.
Intellectual property rights	The business, IT systems, bespoke software and intellectual property are not protected by patents or registered design rights which means that the Group cannot inhibit competitors from entering the same market if they develop similar technology independently. In addition, third parties may independently discover Ocado's trade secrets and proprietary information or systems.	In order to minimise the disclosure of intellectual property outside the organisation, the Group chooses to rely on copyright, confidentiality and licence agreements with its employees, customers, suppliers, consultants and others to protect its intellectual property rights, rather than take other protective measures.
Financing		
Funding for capital expenditure	The Group's £100 million credit facility may be terminated by the lenders if the sourcing agreement with Waitrose is terminated for any reason.	The Group is able to manage whether any such termination rights will arise under the sourcing agreement and hence any potential impact on the debt facility (with the exception of the change of control termination right described above).
Liquidity	To manage the working capital needs of the business and to finance the expansion plans, the Group is reliant on being able to arrange and maintain sufficient financing and to comply with their conditions once established. The most material of the Group's facilities is its £100 million credit facility. A material reduction in EBITDA could lead to a breach of covenants under this facility which would put the Group in default of this facility and would allow the lenders to terminate the facility. This would jeopardise the Group's expansion plans and threaten the Group's ability to continue as a going concern.	The Group maintains a mixture of short and medium term debt and lease finance arrangements that are designed to ensure that it has sufficient available funds to finance its operations. The Board monitors rolling forecasts of the Group's liquidity requirements based on a range of precautionary scenarios to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. As part of the above the Board continues to monitor the timing and amounts of uncommitted capital projects. Under all the above scenarios the Directors are confident that the existing facilities provide sufficient funding for the Group to operate as a going concern and to continue with its plans to expand the business. The Group regularly reports to and meets with its key lenders to ensure that they are fully informed of the current business performance and future financing requirements of the Group.

Risk area	Potential impact	Mitigation
Exchange rate, interest rate and commodity fluctuations	Any depreciation of sterling in relation to the euro could increase the sterling equivalent of the price paid for the machinery used in CFC2 and to expand the capacity of CFC1 (which is mostly purchased from suppliers located in countries that have adopted the euro). Fluctuations in the cost of commodities affect the prices that the Group pays for its grocery products and (in the case of diesel) to deliver to customers, and often these cost increases are absorbed by the Group. Fluctuations in interest rates will impact the finance costs to the business.	The Group has a policy, controlled by the treasury committee (and monitored by the Board), to hedge certain foreign currency and interest rate exposures through the use of derivative financial instruments and fixed and floating instruments. There are approval parameters for hedging arrangements and a policy to monitor and review hedging arrangements including short- and long-term foreign exchange rates, interest rates and counterparty risk.
Staff		
Staff retention and recruitment	The Group is reliant on its key management in particular, and staff for the operation of its business and expansion of the business, notably CFC2. The Group's ability to recruit, retain and motivate suitably qualified and experienced staff is important for the Group's success. The relationship between the Group and its workforce will be influenced by the Union of Shop, Distributive and Allied Workers ("USDAW"). USDAW participates in the Group's employee representative body, the Ocado Council, since being formally recognised by the Group in November 2011 in respect of the Group's hourly paid staff in relation to pay, working hours and holidays.	The Directors continue to keep management and staff remuneration and incentivisation under review to ensure it remains competitive and motivating. The Group has a written management succession plan for all key roles and made development plans for management. The business has had good relations with its workforce to date. The Ocado Council provides the forum to discuss the terms and conditions of employment for the workforce and provide for further engagement with staff.
Risks relating to the industry		
Competition and the online grocery market	The trend in UK food retailing of moving from the traditional grocery market to the online grocery market may not continue in part because of changing economic conditions. The Group may be adversely affected (via loss of market share) by the entrance of new competitors in the online grocery market or if the traditional grocery retailers, including Waitrose, invest heavily in their online operations.	The Directors believe that the online grocery market will continue to grow rapidly in the UK, particularly as the number of people shopping online has continued to increase. Ocado has a business model which is predicated on offering our customers a superior service in terms of product quality and convenience, reliability and accuracy of delivery, as well as environmental efficiency. The Directors believe that as the Group's proprietary intellectual property and bespoke IT systems (including the Group's website and mobile apps, the stock management systems, CFC1, the customer delivery system and the van routing system) become more sophisticated, so the barriers to entry for a potential online competitor become greater.
UK and global economic conditions	The Group's performance may depend on factors outside the control of the Group which impact on UK consumer spending and demand, including economic and financial conditions. The difficult economic environment in the UK is likely to	The Group regularly reviews its approach to pricing, marketing and product range for appropriateness to market conditions and to adapt to customer feedback and pricing initiatives of its competitors. The Group intends to significantly expand its product range (including non-grocery and Ocado

Risk area	Potential impact	Mitigation
	result in increased retail price competition in the UK grocery market and lower product margins because of increased promotional activity which will mean that maintaining the Group's gross margins will be very challenging. In addition, current economic conditions may lead to a reduction in the Group's sales or sales growth rate.	own-label ranges) and is trialling various customer retention and pricing initiatives in order to help meet its gross margin expectations.
Regulation and safety		
Health and safety law	A violation of health and safety laws relating to the Group's operations or construction of CFC2 or expansion of CFC1 could lead to injury to employees, negative publicity and reputational damage, fines, costly compliance procedures and in very serious circumstances, a temporary shutdown of all or part of the business, or a delay in construction of CFC2.	The Group's health and safety department maintains and monitors procedures, which are aligned with the relevant regulations and industry standards. The Group's staff are trained in safe workplace practices. The Group has safety procedures and reporting structures for the CFC2 construction project.
Product safety	The Group is subject to a wide variety of regulatory requirements including those in relation to the manner in which it sources, stores, handles and sells products (such as meat and fish) to customers and relating to the operating of its physical facilities. Any regulatory investigation or belief that the products (including Ocado own-label products) supplied by the Group caused illness or injury to customers or others could adversely affect the Group's reputation with existing and potential customers and its financial performance.	There is an established legal and regulatory team in place to monitor developments and to ensure that all existing regulations are complied with. The Group has a food technology department which monitors the Group's facilities, its vans and its procedures to ensure quality standards and compliance with applicable food law and which liaises with the Waitrose food technology department.
Government regulation	A change in regulations relating to the internet and online retail operations, consumer protection laws, the processing of customer data, the environment (such as carrier bags), or the sale, licensing or storage of products could adversely affect the manner in which the Group currently conducts its business or the Group's operational costs. Regulations govern the weight limits of the loads that each delivery van and LGV can take and the number of hours that drivers can work on consecutive days, which constrain the potential delivery efficiency of the business.	The Group has an established governance process in place to monitor regulatory developments and to ensure that all existing regulations are complied with. The Group's delivery routing software and customised vans (which are specifically designed to improve load-carrying capacity) help maximise the operational efficiency of the Group's delivery infrastructure within the scope of the existing regulatory requirements.

Statement of Directors' Responsibility

Ocado's annual report for the 52 weeks ended 27 November 2011, to be published in due course, will contain a responsibility statement as required under Disclosure and Transparency Rule 4.1.12, regarding responsibility for the financial statements and the annual report. This responsibility statement is repeated here (below) solely for the purposes of complying with Disclosure and Transparency Rule 6.3.5. It is not connected to the extracted and unaudited information presented in this results announcement.

The Directors confirm that to the best of their knowledge:

· the Group financial statements, which have been prepared in accordance with International Financial Reporting Standards and International Financial Reporting Interpretation Committee interpretations, as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group; and

· the Directors' report includes a fair review of the development and performance of the business and the position of the Group and contains a description of the principal risks and uncertainties facing the Group.

The Directors of Ocado Group plc will be listed in the annual report 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:

Michael Grade;
David Grigson;
Tim Steiner;
Jason Gissing;
Neill Abrams;
Andrew Bracey;
Mark Richardson;
Ruth Anderson;
Robert Gorrie;
Jörn Rausing;
David Young; and
Douglas McCallum.

This information is provided by RNS
The company news service from the London Stock Exchange

END

FR WGUQGGUPPUUG