Final Results

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RNS Number : 6003C
Ocado Group PLC
11 February 2020

Strong progress and excellent momentum; statutory results impacted by Andover fire

Full Year results for the 52 weeks ended 1 December 2019

11 February 2020

Financial highlights

- **10.3% Retail Revenue growth, making Ocado Retail the fastest growing grocer in the UK, despite capacity lost with Andover fire**
- **Fees invoiced to International Solutions partners of £81.4 million, up over 38%, bringing the total to around £140m of unrecognised fees by the end of the year**
- **Group EBITDA was £43.3 million, reflecting the combined impacts of the Andover fire, the adoption of IFRS 16, and the costs of share schemes, broadly in line with consensus**
- **Loss before tax was £214.5 million**
- **Funding position strengthened to £751 million. A further £600 million was raised through a convertible bond issuance after the year end**
- **We continue to invest for further growth; in facilities for our clients, and in improving our platform and capabilities**

	Statutory		
	FY 2019 £m	**FY 2018 Re-presented[1] £m**	**Change vs FY 2018 %**
Revenue			
Retail*	1,617.5	1,466.6	10.3%
UK Solutions & Logistics*	583.2	541.1	7.8%
International Solutions*	0.5	0.5	
Inter-Segment & Other	(444.6)	(409.4)	
Group[3]	**1,756.6**	**1,598.8**	**9.9%**
EBITDA			
Retail*	35.0	30.1	16.1%
UK Solutions & Logistics*	84.8	67.5	25.7%
International Solutions*	(62.1)	(28.4)	
Other*	(14.4)	(9.7)	
Group*[4,5]	43.3	59.5	(27.2)%
Exceptionals[2]	(94.1)	(0.1)	
Loss before tax	**(214.5)**	**(44.4)**	
Capital Expenditure	259.9	213.2	
Cash and cash equivalents	**750.6**	**410.8**	
Net cash*	142.4	50.2	

Notes:
1. FY 2018 segments re-presented; refer to note 2.1 in the financial statements for more details (also see Accounting Seminar presentation at https://www.ocadogroup.com/investors/reports-and-presentations/year/all)
2. Primarily due to Andover fire with £88.0 million of exceptionals reflects the net cost associated with the write-down of Andover CFC and associated assets of £111.8 million, offset by £23.8 million in insurance proceeds recognised in exceptionals to date

* These measures are Alternative Performance Measures, refer to note 15 in the condensed financial statements.

See page 4 for *Notes Continued*

Tim Steiner, Chief Executive Officer of Ocado Group, said:

"We are pleased to report results which show strong momentum in the business. Although statutory results reflected a combination of factors, including the impact of the Andover fire, the underlying performance of Ocado Retail and the successful growth of Ocado Solutions were very encouraging.

Our progress over the last twelve months, which includes signing our eighth and ninth Solutions clients, Coles in Australia and Aeon in Japan, and successfully maintaining strong growth post-Andover, has demonstrated many of Ocado Group's most important characteristics: resilience, innovation, focus and execution. It is these qualities that will enable us to continue to develop the Ocado Smart Platform to meet the evolving needs of our partners at the cutting edge of online grocery retail.

The first half of this year will see a new milestone for Ocado Group; the opening of the first customer fulfilment centres for our international partners. These state-of-the-art robotic facilities are a core part of an end-to-end solution embracing automated fulfilment, an intuitive and easy to use webshop, and hyper-efficient last-mile delivery which will enable Sobeys and Groupe Casino to deliver the same outstanding customer experience to consumers in Canada and France as Ocado Retail does today here in the UK.

The landscape of grocery retailing globally is changing. We are excited to be able to play a leadership role through Ocado Retail, our joint venture with M&S, and through our Solutions partnerships, as we fulfil our mission of "changing the way the world shops".

Key milestones in 2019

Ocado Solutions, the business which helps grocers around the world develop on-line grocery services through the application of technology, robotics and AI, has made strong progress over the year, preparing existing partners for launch and signing new partners.

Building our global technology-led platform business

- Over the last twelve months we have brought three major international retailers into the unique group of grocers powering their ecommerce with Ocado's Solutions. These are Coles in Australia, Aeon in Japan, and our joint venture with M&S, Ocado Retail Limited ("Ocado Retail")
- Coles, one of Australia's largest retailers, will initially open two Customer Fulfilment Centres ("CFCs") in Sydney and Melbourne. These facilities are expected to go live by the end of 2023
- The agreement with Aeon, one of Asia's largest retailers, plans for the development of a national fulfilment network to serve the whole of the Japanese market, with expected sales capacity for Aeon of approximately 1tn JPY by 2035
- The joint venture with M&S creates a new client for Ocado Group and, going forward, Ocado Retail will continue to use the platform provided by Ocado Solutions, as well as Group's logistics capabilities, to bring the Ocado service to its fast growing customer base, numbering already almost eight hundred thousand customers
- The combined revenue of our global partners is now £210bn

Delivering outstanding execution

- Preparations are well advanced for the opening of our first international CFCs, for Groupe Casino in Paris and for Sobeys in Toronto. We expect both facilities to go live in H1 2020. Further sites, including in the US and the UK, one in Sweden and a further CFC in Canada are currently in various stages of construction
- As these two facilities are our first overseas sites to open, we plan to operate them initially with more support on the ground than we expect to need at future sites, to ensure as smooth as possible a launch and early ramp up in capacity
- We have added 1,300 colleagues in the period, of whom over 650 are in Technology and Engineering, to allow us to meet the needs of our partners and to create new and innovative technology which will mean that the Ocado Smart Platform remains the benchmark for customer outcomes and sustainable economics
- We are adapting our internal structures and processes to meet the requirements of growing at a greater velocity. These changes include reorganising the business around missions rather than functions, bringing together "like" activities and reducing silos and duplication in order to best service our clients, strengthening our management teams and investing in new global support systems

Investing in innovation to future proof the platform for our partners

- Ocado Zoom, our new immediacy service which offers delivery within one hour of ordering, has proven very popular with customers. It is now delivering over 3,000 orders per week from our first site in Chiswick, West London, and we are working on plans for a further site
- We have announced plans to open our first mini-CFC, which will be located in Bristol. The facility will have the capacity for 30,000 orders per week compared to 65,000+ orders per week in a standard-sized CFC. Despite its smaller size, we expect the Bristol mini-CFC to achieve competitive rates of productivity close to a standard CFC
- In developing a mix of different sizes of facility, Ocado is creating a unique and flexible ecosystem. This provides long-term network benefits that will enable Ocado Retail and other Solutions partners to reach ever more households, while catering to the wide and growing range of shopping missions that customers expect to be served through online grocery
- Robotic arms are now assisting in the fulfilment of live customer orders in our latest CFC in Erith, South-East London. We are continuing our development of vision systems, tactile gripper technology and machine-learning to enable robotic picking to fulfil a greater proportion of customer orders and are making encouraging progress. When this rolls out, we would expect material improvements to economics to be available to our partners
- Four recent venture investments, including taking a majority stake in Jones Food Co., Europe's largest vertical farm, and taking a stake in Karakuri, a potential leader in the use of robotics for the assembly of ready-to-eat meals, represent value creation opportunities for Ocado Group shareholders as well as additional opportunities for our partners to improve the service they offer their customers

Ocado Retail continues to perform well. The business, now a 50:50 JV between Ocado Group and M&S, is currently the fastest growing grocer in the UK.

Demonstrating the resilience of the UK business, growing the customer base, and winning market share

- Despite losing approximately 10% of sales capacity in the Andover fire in February 2019, and a further 10% of sales capacity that we expected to grow into, sales grew 10.3%
- Market share in online grocery increased by 0.8%, reflecting growth in active customers[6] of 10.3% and a broadly stable average basket
- Key KPIs, illustrating underlying efficiency within fulfilment and in the last mile, both improved. Units picked per labour hour ("UPH") in mature CFCs was 168, up 1.8% on FY18 and deliveries per van per week ("DPV") was 196, approaching our new target of 200
- Ocado Retail has substantially reduced food waste (the proportion of food that is not sold because it is past its best-by date) from 0.8% to 0.4%. We believe that this is the lowest wastage number in the industry

Continuing to improve the offer for Ocado Retail's customers

- Ocado Retail has grown the range by 7%, to 58,000 items, the largest of any food retailer in the UK
- It has also led consumer trends, adding to the 'free from' and organic aisles over 1,000 and over 500 products respectively
- Consumers continue to experience high levels of consistency in terms of customer service. On-time delivery remained above 95%, with order accuracy of 99%

JV now established and preparations for M&S switchover progressing well

- The JV is now a separate legal entity with its own management team. Melanie Smith, who brings extensive experience from McKinsey and more recently M&S, joined as CEO in September and has been building her leadership team
- Ocado Group's joint venture deal with M&S, which closed in August, secured a long term sourcing agreement to replace our former agreement with Waitrose which was up for renewal, thereby removing any possible disruption from Ocado Retail being left without a sourcing partner
- Preparations for the September switchover from Waitrose to M&S products are well underway. The range review has been completed, confirming that we believe M&S has substitutes at the same price or lower, and of the same quality or better, for the majority of those currently supplied by Waitrose (which represent under 4,000 products out of the total range of 58,000). This is the first time that M&S food will be available to customers online, together with the full supermarket assortment of popular household brands already available on Ocado.com
- Ocado Retail anticipates adding many more additional M&S lines to the range to give customers even greater choice than before

Outlook statement

- **Revenue growth:**
  - Retail revenue growth of 10-15%

    - UK Solutions & Logistics below Retail, reflecting full year impact of Morrisons' "holiday" from Erith
    - International Solutions is expected to be less than £10m, as under IFRS 15 fees start to be recognised at go-live, with initial CFC sites in France and Canada only operational for part of the year
- **International Solutions fees invoiced growth of 40% or more**
- **EBITDA:**
    - Retail above revenue growth, reflecting improved operating margins as Erith scales
    - UK Solutions & Logistics to decline, primarily due to full year impact of Morrisons' "holiday" from Erith, with corresponding insurance benefits recorded in exceptional income
    - International Solutions to decline due to continued investment in building the business, and increased support costs with launch of initial CFC sites
- **Insurance proceeds related to Andover fire to be received over time; expect business interruption losses to be covered.** Our insurers have accepted our claim and £74m has been received by the end of the period with £24m recognised in the income statement. Further insurance proceeds will be received over time and be recognised as exceptional income when the related capital expenditure or business interruption costs are incurred
- **Total capital expenditure for the Group is expected to be around £600m** with the majority of the increase reflecting the additional capital to meet the needs of our Solutions customers' growth in the UK and internationally
- **Continue to target further Solutions deals** which would generate additional cash fees but would negatively impact short term profits

Results presentation

A results presentation will be held for investors and analysts at 9.30am today at Numis, 1 Paternoster Square, London EC4M 7LT. Presentation material and webcast link will be available online at http://www.ocadogroup.com/investors/reports-and-presentations/2019.aspx shortly before the presentation starts.

Contacts

Tim Steiner, Chief Executive Officer on 020 7353 4200 today or 01707 228 000
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Notes continued

3. Revenue is online sales (net of returns) including charges for delivery but excluding relevant vouchers/offers and value added tax. The recharge of costs to our UK Solutions clients and International Solutions clients are also included in revenue with the exception of recharges to Ocado Retail which are eliminated on consolidation.
4. EBITDA* is a non-GAAP measure which we define as earnings before net finance cost, taxation, depreciation, amortisation, impairment and exceptional items*
5. Group EBITDA reflects the impact of IFRS 16 £25.4m in FY19 but not in FY18. See note 1.3 in the financial statements for more details on the estimated impact on FY18, also in Accounting Seminar presentation at https://www.ocadogroup.com/investors/reports-and-presentations/year/all
6. Customers are classified as active if they have shopped on Ocado.com within the previous 12 weeks

Financial Calendar

The schedule for Ocado Retail results for the remainder of the year is for a Q1 Trading Statement on 19 March 2020, Q3 Trading Statement on 15th September 2020 and a Q4 Trading Statement on 10th December 2020. The results of Ocado Retail will also be included in the Ocado Group H1 Results on 7th July 2020.

Cautionary statement

Certain statements made in this announcement are forward-looking statements. Such statements are based on current expectations and assumptions 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 expressed or implied in these forward- looking statements. Persons receiving this announcement should not place undue reliance on forward-looking statements. Unless otherwise required by applicable law, regulation or accounting standard, Ocado does not undertake to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise.

Chief Financial Officer's Review

For the period to 1 December 2019, we maintained significant sales growth in a competitive environment whilst transforming our business.

The Group has secured two new partnerships in Australia and Japan, completed a transformational deal with M&S in the UK and significantly increased financial headroom. The Retail business continued to deliver double digit retail revenue growth, despite losing the CFC Andover capacity as a result of a fire, and continued to innovate with new propositions such as Ocado Zoom. Profitability in the period was impacted by the significant international investments in our platform to support future growth, the first full year of operational costs of our new facility in Erith, share-based management incentive charges, and additional depreciation. In addition, there were £94.1 million of exceptional costs, principally due to costs relating to the Andover CFC fire and resulting in loss before tax was £214.5 million.

The commentary is on a pre-exceptional basis[2] to aid understanding of underlying performance of the business.

IFRS 16 "Leases"

The Group has early adopted IFRS 16, the new accounting standard for leases and as a result the key alternative performance measure, EBITDA, has improved. This new standard requires the majority of leases to be recognised on the balance sheet as Right of Use Assets, generating depreciation and interest charges, which fall below EBITDA, in place of lease expenses which would have previously been included in the calculation of EBITDA. The comparative period FY2018 has not been restated. The cumulative impact on prior periods is reflected by adjusting opening reserves at 3 December 2018. Detailed impact on the 2019 results is provided below, with additional disclosures provided in note 1.3 to the financials.

Group Results

	Pre-Exceptional FY 2019 **£m**	**Exceptional Items**	**Total FY 2019** **£m**	FY 2018 £m	Pre-Exceptional Variance
Revenue[1]	1,756.6	-	1,756.6	1,598.8	9.9%
Gross profit	597.3	(5.5)	591.8	547.5	9.1%
Other income	83.9	23.8	107.7	71.9	16.7%
Distribution and administrative costs (pre IFRS16)	(664.0)	(12.3)	(676.3)	(561.1)	18.3%
Reduction in costs relating to IFRS16	25.4	-	25.4	-	n/a
Share of results from joint ventures and associates[4]	0.7	-	0.7	1.2	(41.7%)
EBITDA*[2]	**43.3**	**6.0**	**49.3**	**59.5**	**(27.2%)**
Depreciation, amortisation and impairment[3]	(136.1)	(99.0)	(235.1)	(91.4)	(48.9%)
Loss on disposal of subsidiary	-	(1.1)	(1.1)	-	-
Net Finance costs	(27.6)	-	(27.6)	(12.5)	(120.8%)
(Loss) before tax	**(120.4)**	**(94.1)**	**(214.5)**	**(44.4)**	**(171.2%)**

1. Revenue is online sales (net of returns) including charges for delivery but excluding relevant vouchers/offers and value added tax. The recharge of costs to our UK Solutions clients and International Solutions clients are also included in revenue with the exception of recharges to Ocado Retail which are eliminated on consolidation
2. EBITDA is stated before the impact of exceptional items* unless stated otherwise in the column-based presentation above*
3. FY2018 is not restated for IFRS 16. For more details of IFRS 16 refer to note 1.3 in the financial statements (also see the Accounting Seminar presentation at https://www.ocadogroup.com/investors/reports-and-presentations/year/all)
4. Share of results from joint ventures relates to joint ventures where the Group does not exercise control such as MHE JVCo and Jones Food Company. The Ocado Retail joint venture, over which the Group exercises control, is not included as the results are fully consolidated.

Group revenue for the period has grown by 9.9% in comparison to 2018 revenue of £1,598.8 million. This was driven by an increase in the average number of orders per week, despite the capacity limitations following the fire at CFC Andover. Gross profit grew steadily despite the competitive nature of the market. Other Income increased by 16.7% to £83.9 million, driven by increased media income from suppliers through Ocado.com and an additional research and development tax credit of £4.6 million.

EBITDA before the impact of exceptional items and IFRS 16 for the period was £17.9 million (FY 2018: £59.5 million). The decline was driven by the increased investment in developing the head office teams required to support our international growth; costs for a full year of operation for Erith CFC; lower fee income from Morrisons due to a revised agreement which temporarily releases Erith capacity; and higher share incentive costs in the period.

Depreciation, amortisation and impairment increased by 48.9% to £136.1 million, of which £19.8 million relates to the impact of IFRS 16, with the balance driven primarily by a full year of depreciation for Erith CFC.

Net finance costs increased from £12.5 million to £27.6 million, which includes £14.9 million for the impact of IFRS 16. The remaining balance primarily consists of finance costs relating to the Senior Secured Notes.

As a result of the above and exceptional items of £94.1 million, the statutory loss before tax for the period was £(214.5) million (2018: loss of £44.4 million).

A review of 2019

This has been a period of rapid change for Ocado and several events have had a material impact on the results for the period. To aid understanding of the numbers, a summary of these is given below.

Andover CFC

In February 2019, a fire destroyed the Andover CFC, including the building, machinery and all inventory held on site. The Group has comprehensive insurance and claims have been formally accepted by the insurers. Due to the capacity constraints following the Andover CFC fire, the Group agreed with Morrisons to temporarily suspend their access to capacity in Erith CFC during the period in exchange for lower store pick fees and no cost recharges for this CFC.

In addition there is a net cost in exceptionals of £88.0 million relating to the Andover CFC comprising £111.8 million of costs including the write off of assets lost in the fire, offset by £23.8 million of insurance proceeds recognised to date.

Ocado International Solutions

During the year, the Group signed two new partnerships in Asia Pacific. Our first agreement is with Coles Group Ltd ("Coles") in Australia to develop initially two CFCs, expected to open by 2023, alongside the transition of its existing store-pick based operations to the Ocado Smart Platform. The second agreement, announced in November, is with Aeon in Japan to develop up to three CFCs initially.

In May, Sobeys Inc. ("Sobeys"), an existing partner in Canada, agreed to build a second CFC in Point-Claire, Montreal.

These additional agreements contributed to the increase in head office costs but there was no associated revenue recorded in 2019, in accordance with IFRS 15.

Formation of the Ocado Retail Joint Venture with Marks and Spencer ("M&S")

In February 2019, the Group announced the creation of a new 50:50 joint venture with M&S. The joint venture comprises Ocado's UK retail business, Ocado.com, supported by a new partnership for Solutions services underpinned by the Ocado Smart Platform and the provision of branding and sourcing from M&S. Currently Ocado.com carries almost 55,000 different products, of which approx. 3,500 are Waitrose own label products. We will switch over to M&S by September 2020, after which time Ocado.com will continue to range Ocado own label and this extensive range of branded products, and M&S products will be available on Ocado.com replacing Ocado's current sourcing agreement with Waitrose Limited. M&S paid Ocado £562.5 million in upfront cash and agreed a deferred cash payment of £187.5 million up to five years after completion, dependent on the satisfaction of certain financial and operational conditions.

On 20 May 2019 the transaction was approved by Ocado's shareholders at an extraordinary general meeting and the transaction completed in Q3 2019. Ocado continues to consolidate the results of Ocado Retail, the share of the results attributable to M&S is shown as a non-controlling interest and the costs relating to the disposal of shares are primarily accounted for in equity. Any other costs relating to the transaction are accounted for in exceptional items.

Changes to Segment Reporting

The Group has determined that there are now three reportable segments following the sale of 50% of Ocado Retail to M&S during the year. These are Ocado Retail which provides online grocery and general merchandise offerings to customers within the United Kingdom, UK Solutions & Logistics which provides the end-to-end online retail solution, the operation of CFCs and logistics services for UK based partners Ocado Retail and Morrisons, and International Solutions which provides the end-to-end online retail solution to our partners outside the United Kingdom.

IFRS 16 Impact in 2019

In the period, the Group early adopted the IFRS 16 accounting standard. The Group chose not to restate the comparative period FY2018 in accordance with the guidelines of the standard. The impact of IFRS16 on the segmental results is a reduction in costs of £14.8 million for the Ocado Retail segment and £10.6 million for the UK Solutions and Logistics segment. The full impact on the profit and loss statement including the impact on depreciation and finance costs is below:

IFRS 16 impact	FY 19 £m
Distribution and Administrative costs	**25.4**
Depreciation, amortisation and impairment	(19.8)
Net Finance Costs	(14.9)
Profit before tax	(9.3)

Growth of new venture investments

In the period, the Group announced two complementary investments, a joint venture, Infinite Acres Holdings BV, with 80 Acres Farm Inc. and Priva Holdings BV, along with the purchase of a 64% stake in Jones Food Company. We believe that these investments at a cost of less than £17 million will add to the significant portfolio of technologies and know-how that we are building to revolutionise the way customers access fresh food. The Group also made smaller investments in a robotics start-up company and a 3D printing company, both of which are minority stake investments.

There is no material impact to the results for these developments in the 2019 Financial year.

Sale of Fabled to Next

In early summer, the Group agreed to sell Fabled to Next which occurred during the year. The disposal completed in early July with a net loss of £1.1 million accounted for in exceptional items.

Trading review by segment

Segment revenue and Segment EBITDA* are shown below, in line with the Group's new segments. During the period the Group determined that there are three reportable segments, which reflect the structure of the Group post the sale of 50% of Ocado Retail to M&S. For comparability purposes, the numbers by segment for FY2018 have been re-presented on a basis consistent with the Group's new segments. More details of segment reporting are included in note 2.1 of the financial statements.

Retail Performance

	FY 2019[3] **£million**	FY 2018[3] £million	Variance
Revenue	1,617.5	1,466.6	10.3%
Gross profit	466.4	423.6	10.1%
Other income	65.6	59.8	9.7%
Distribution costs*[1]	(433.8)	(388.4)	11.7%
Marketing (non-voucher)	(21.2)	(13.9)	52.5%
Other administrative costs*[1]	(56.8)	(51.0)	11.4%
IFRS 16 Impact	14.8	-	-
EBITDA*[2]	**35.0**	**30.1**	**16.3%**

1. Distribution and administrative costs exclude depreciation, amortisation and impairment for the period
2. EBITDA* does not include the impact of exceptional items*
3. Retail segment has been represented for FY2018. For further details refer to note 2.1 of the financial statements.

Retail revenue* growth of 10.3% was primarily due to a 10.7% year-on-year increase in orders per week to 325,000 (2018: 294,000) driven by an increase in the number of new customers. The average basket at Ocado.com of £103.18 decreased slightly by 0.6% compared to 2018.

Gross profit

Gross profit was up 10.1% to £466.4 million, driven by higher order volumes and improved cost prices.

Other income

Other income increased by 9.7% to £65.6 million (2018: £59.8 million) with supplier income increasing year-on-year by 11.9% to £63.9 million (2018: £57.1 million) equivalent to 3.9% of retail revenue* (2018: 3.9%).

Distribution and administrative costs

	FY 2019 £million	FY 2018 £million	Variance
CFC	143.4	123.4	16.2%
Trunking and Delivery	197.7	181.3	9.0%
Other operating costs	92.7	83.7	10.8%
Total Distribution costs	433.8	388.4	11.7%

Distribution costs predominantly consist of fulfilment and delivery operation costs which are provided to Ocado Retail by the Ocado UK Logistics operation.

CFC costs increased from £123.4 million to £143.4 million, an increase of 16.2% year-on-year. The rate of growth was primarily due to the increased number of customer orders combined with the costs of the full year of operation of the Erith CFC. An agreement was reached with Morrisons for them to withdraw temporarily from the Erith CFC and so to release additional capacity at Erith CFC to Ocado.com, but this meant that Ocado was responsible for all the fixed costs at this site whilst it is in early stages of growth.

Mature CFC (defined as CFC1 and CFC2) UPH improved by 1.8% to 168 UPH, driven mainly by improvements at Dordon CFC.
Trunking and delivery costs increased by £16.4 million to £197.7 million, an increase of 9.0% year-on-year (2018: £181.3 million). This is due to increases in wage-related and vehicle costs as a result of greater order volumes and inflationary cost pressures, offset by efficiencies as deliveries per van per week have risen by 1% to 196 (2018: 194) as customer density improved and with further enhancements to our routing system.

Other operating costs include the costs associated with provision of the OSP and Logistics services to Ocado Retail by UK Solutions & Logistics of £81.8 million (2018: £73.2 million).

Marketing costs excluding voucher spend increased from £13.9 million to £21.2 million, 1.3% as a percentage of retail revenue (2018: 0.9%) up on the prior period due to increases in online acquisition, particularly following the disruption from the fire in Andover, and trialling of an offline media campaign.

Other administrative costs increased by £5.8 million, 11.4%, to £56.8 million to support underlying business growth and the establishment of Ocado Retail as a stand alone business unit.

The implementation of IFRS 16 by the Group impacts the Ocado Retail segment because most of the owned and leased assets of the Group are used by this business segment.

EBITDA*

EBITDA* excluding exceptional items for the retail business was £35.0 million (2018: £30.1 million). We expect EBITDA growth ahead of revenue growth in 2020.

UK Solutions & Logistics Performance

	FY 2019 £million	FY 2018 £million	Variance
Fee revenue	109.9	104.3	5.4%
Cost recharges[1]	473.3	436.8	8.4%
Revenue	583.2	541.1	7.8%
Other Income	3.0	2.6	15.4%
Distribution costs	(468.4)	(431.0)	8.7%
Administrative costs	(43.5)	(45.2)	3.8%
Share of JV	(0.1)	-	-
IFRS 16 Impact	10.6	-	n/a
EBITDA*	84.8	67.5	25.6%

Revenue

Revenue from the UK Solutions & Logistics business was £583.2 million, up from £541.1 million in 2018. This comprises a recharge of relevant operational variable and fixed costs to UK partners Ocado Retail and Morrisons, as well as fees to access Ocado's technology platforms, capital recharges, management fees and research and development.

Other income

Other Income increased to £3.0 million (2018: £2.6 million) primarily related to rental received from Morrisons in respect of Dordon CFC rent recharges.

Distribution and administrative costs

Distribution and administrative costs consist of fulfilment and delivery operations costs for Ocado Retail and Morrisons, charged from UK Solutions, as well as head office costs. Distribution costs were £468.4 million and increased 8.7% due to increased volumes, additional fixed costs for a full year of operation of Erith and wage increases, offset by cost efficiencies in both CFC trunking and delivery operations.

Administrative costs were £43.5 million and decreased slightly year-on-year following the organisation changes with the establishment of Ocado Retail as a stand alone business unit and increased focus of central resources on our International Solutions business.

The implementation of IFRS 16 by the Group impacts the UK Solutions and Logistics segment because some of the owned and leased assets of the Group are used by this business segment.

EBITDA*

EBITDA* from our UK Solutions & Logistics activities was £84.8 million, an increase of £17.3 million. Excluding the impact of IFRS16 on 2019, EBITDA grew by £6.7 million or 9.9%.

International Solutions Performance

	FY 2019 **£million**	FY 2018 £million	Variance
Fees invoiced	81.4	58.8	38.4%
Revenue	0.5	0.5	-
Distribution and administrative costs*	(62.5)	(28.9)	116.3%
EBITDA*	(62.1)	(28.4)	118.3%

Fees and Revenue

Fees invoiced amounted to £81.4 million (2018: £58.8 million). Fees relating to OSP are not recognised as revenue until a working solution is delivered to the partner. In 2019 revenue recognised from the International Solutions business was in line with the prior year. Revenue is expected to continue to increase from 2020 when our first international CFCs commence operations and further commitments are received for new CFCs from our clients.

Administration costs primarily consist of the non-capitalised costs of employees who are developing OSP and other costs supporting our international partnership agreements. These costs grew year-on-year as a result of the increase in headcount to support building further capabilities to sign future clients, increased people, travel and cloud costs to support existing international clients in launching the CFCs and further improvements in our platform.

EBITDA*

EBITDA* from our International Solutions activities was a loss of £(62.1) million (2018: £(28.4) million).

Other Segment

EBITDA loss was £(14.4) million in the current period (2018 loss: £(9.7) million). The other segment represents revenue and costs which do not relate to the other three segments. This includes board costs, the results of the Fabled business that was divested during FY19 and the consolidated results of Jones Food Company. The increase in costs is primarily due to an increase in share-based senior management incentive charges, offset by reductions in losses for Fabled which was sold in July and £4.1 million of research and development tax credits.

Exceptional Items

	FY 2019 £million	FY 2018 £million
Andover CFC		
Write off of property, plant and equipment	(96.9)	-
Write off of intangible assets	(2.1)	-
Loss of inventory	(5.5)	-
Insurance reimbursement	23.8	-
Other exceptional costs	(7.3)	-
Total Andover Exceptional	**(88.0)**	-
Disposal of Fabled	(1.1)	-
Set up costs for the joint venture with Marks & Spencer	(3.4)	-
Litigation costs	(1.3)	(0.1)
Other exceptional items	(0.3)	
Total exceptional items	**(94.1)**	**(0.1)**

Andover CFC

In February 2019, a fire destroyed the Andover CFC, including the building, machinery and all inventory held on site. The Group has comprehensive insurance cover and claims have been formally accepted by the insurers. Property, plant and equipment with a net book value of £96.9 million was destroyed or damaged to the extent that no amount is expected to be recoverable. Inventory held at a cost of £5.5 million was destroyed by the fire.

Insurance reimbursement of £23.8 million has been recognised for initial capital expenditure on rebuild, for business interruption costs incurred to date and the value of destroyed inventory at retail price. An insurance reimbursement asset has been recognised on the balance sheet for the restoration of the original asset on site as well as a corresponding provision representing the obligation to reinstate the building.

There have been a number of other exceptional costs as a result of the fire which include, but are not limited to, temporary costs of transporting employees to other warehouses to work, professional fees relating to the insurance claims process, reimbursement of employee's personal assets that were destroyed and a restructuring provision that has been recognised as a result of the formal redundancy consultation that commenced in May 2019.

The Group expects to receive further insurance reimbursements in respect of reconstruction costs and business interruption losses. Claim negotiations are ongoing and the Group has not recognised any amount in respect of this as the recoverability and final amount are not yet virtually certain. Exceptional income will be recognised in the future as the costs of rebuilding the CFC and business interruption are incurred.

Disposal of Fabled

Loss on disposal of Fabled and Legal costs were incurred in relation to the sale of Fabled.

Joint venture with M&S

Whilst certain costs relating to the transaction are permitted to be accounted for directly within equity, there are others that do not meet the requirements and as a result have been reported as exceptional costs.

Litigation costs

The Group has made a claim for damages and for injunctive relief against Jonathan Faiman, Jonathan Hillary and Project Today Holdings Limited, a software and online fulfilment company, because of the misappropriation and unlawful misuse of Group confidential information and Intellectual Property. The Defendants' business trades under the names "Today Development Partners" (TDP) or "T0day". We strongly believe in the merits of our case. Ocado's intellectual property is its greatest asset and represents a significant portion of the Group's value; we have spent the last 20 years developing our intellectual property, technology and know-how. The Group relishes fair competition, but will vigorously protect its intellectual property and challenge any individual or organisation that uses unlawfully obtained information, either directly or indirectly. The Group is resolute that it will protect all of its stakeholders' interests.

Legal and other costs have been incurred to recover the misappropriated items and seek compensation. We will seek recovery of our costs from the Defendants in the usual way.

Group Performance

	FY 2019 **£million**	FY 2018 £million	Variance
EBITDA*	43.3	59.5	(27.2)%
Depreciation, amortisation and impairment	(136.1)	(91.3)	(49.1)%
Net Finance costs	(27.6)	(12.5)	(120.8)%
Exceptional items	(94.1)	(0.1)	-
(Loss) before tax	(214.5)	(44.4)	(383.1)%
(Loss) after tax	(211.8)	(44.9)	(371.7)%

Depreciation, amortisation and impairment

Total depreciation and amortisation costs were £136.1 million (2018: £91.3 million), an increase of 49.1% year-on-year. The increase in year-on-year costs reflects IFRS16 increasing the depreciation charge by £19.8 million as well as the first full year of operation of the Erith CFC and software that was brought into use following the launch of International Store Pick applications in mid 2018.

Net finance costs

Net finance costs of £27.6 million include an adjustment for IFRS16 of £14.9 million; excluding this, net finance costs increased from £12.5 million to £12.7 million. This primarily consists of finance costs relating to the Senior Secured Notes.
£0.1 million of interest costs have been capitalised in the period in relation to the senior secured notes and the RCF in accordance with the relevant accounting standards (2018: £2.8 million).

Share of result from joint ventures and associates

The Group has accounted for the share of results from two joint ventures; MHE JVCo Limited ("MHE JVCo"), a joint venture with Morrisons, and Infinite Acres Holdings BV, a vertical farming company jointly owned with 80 Acres Farm Inc. and Priva Holdings BV. MHE JVCo holds Dordon CFC assets, which Ocado uses to service its and Morrisons' online business and is owned jointly by Ocado and Morrisons. The Group share of MHE JVCo profit after tax in the period amounted to £1.0 million (2018: £1.2 million). Infinite Acres Holdings BV was acquired during FY2019, and contributed a loss of £0.3 million to the Group's results in the period.

Loss before tax

Loss before tax for the period was £(214.5) million (2018: loss of £(44.4) million).

Taxation

Due to the availability of capital allowances and Group loss relief, the Group has not recognised a corporation tax charge for the period. No tax was incurred in the period in relation to the sale of the shares of Ocado Retail as the gain on the sale of shares is covered by the substantial shareholdings exemption. A deferred tax credit of £2.7m was recognised in the period. Ocado had £284.7 million (2018: £256.4 million) of unutilised carried forward tax losses at the end of the period.

Dividend

During the period, the Group did not declare a dividend.

Loss per share

Loss and diluted loss per share were (29.37)p (2018: (6.85)p).

Capital expenditure

Capital expenditure for the period:

	FY 2019 **£million**	FY 2018 £million

Mature CFCs	5.4	6.2
New CFCs	42.1	80.3
International CFCs	70.9	10.9
Delivery assets	17.0	21.7
Technology	71.4	54.8
Fulfilment Development	33.3	21.2
Other	20.0	18.1
Total capital expenditure[1, 2] (excluding share of MHE JVCo)	259.9	213.2
Total capital expenditure[3] (including share of MHE JVCo)	260.7	213.8

1. Capital expenditure includes tangible and intangible assets
2. Capital expenditure excludes assets leased from MHE JVCo under lease liability arrangements
3. Capital expenditure includes Ocado share of the MHE JVCo capex in 2019 of £0.8 million and in 2018 of £0.6 million

Capital expenditure in mature CFCs in the period mainly related to the Hatfield CFC for a number of small projects to improve the capacity and resilience of this site.

We invested over £40 million in the period for our new UK CFCs. This included £38 million relating to the development work for Erith as it is currently scaling up operations with an expected eventual capacity of over 200,000 OPW.

Total expenditure on new vehicles in the period was £17.0 million (2018: £21.7 million). This expenditure enabled business growth and replacement of vehicles that have reached or exceeded their five year useful life.

Ocado continued to develop its own proprietary software and incurred £71.4 million (2018: £54.8 million) of internal development costs in the period on technology, including £13.9 million (2018: £10.6 million) spent on computer hardware and software. We expanded our Technology total headcount to over 1,700 staff at the end of the period (2018: over 1,300 staff) as increased investments were made to support our strategic initiatives. The main areas of investment were replatforming of our technology and the greater use of public and private cloud services, improvements in the efficiency of our routing systems, enhancements to our customer proposition, and support for the Erith CFC and existing partners future CFCs.

Fulfilment development expenditure of £33.3 million was spent in enhancing our next generation fulfilment solutions for CFC and delivery operations of all our Solutions partners.

Other capital expenditure of £20.0 million was incurred in the period, mainly in respect of head office growth, investment in our back office systems and the Group's transformation programme.

At 1 December 2019, capital commitments contracted, but not provided for by the Group, amounted to £93.6 million (2018: £69.7 million). We expect capital expenditure in 2020 to be approximately £600 million which mainly comprises the roll out of the OSP solution which will be installed into the new CFCs of our clients both in the UK and internationally, continuing investment in our infrastructure and technology solutions, the implementation of our solution to our international partners, and additional investment in new vehicles to support growth.

Cash flow

Net movement in cash and cash equivalents was £339.8 million, an increase of £79.0 million in 2018 as detailed below:

	FY 2019 **£million**	FY 2018 £million
EBITDA*[1]	43.3	59.5
Movement in contract liabilities	79.5	65.5
Other Working capital movement	(29.0)	5.3
Other non-cash items	(5.1)	12.6
Finance costs paid	(30.6)	(14.5)
Insurance proceeds received	73.8	-
Cash settlement of share incentive plan	(80.2)	-
Operating cash flow	**51.7**	**128.4**
Capital investment	(259.6)	(170.1)
Proceeds from disposal of 50% share in ORL	558.3	
Dividend from joint venture	15.6	-
(Decrease)/Increase in net debt*/finance obligations	(65.7)	(32.8)
Proceeds from share issues	59.5	333.1
Other investing and financing activities	(20.0)	2.2
Movement in cash and cash equivalents	**339.8**	**260.8**

1. EBITDA* is stated before the impact of exceptional items*

Operating cash flow reduced by £76.7 million to £51.7 million during the year.
Cash received during the year in relation to International Solutions partners, excluding VAT, amounted to £79.5 million (2018: £65.5 million).

Other working capital was reduced by £29.0 million. This included an increase of £29.4 million in trade receivables due to timing delays for a tax receipt and in issuing supplier invoices for promotional income and an increase of £8.0 million in trade payables in line with business growth. The reported movement in inventory is an increase of £7.6 million as the reductions from the loss of inventory at Andover CFC and inventory connected to the disposal of Fabled are accounted for elsewhere in the cashflow.

Insurance proceeds of £73.8 million were received in the period in connection with the claim for the fire at Andover CFC. During the period a long term share incentive scheme was settled in cash at a cost of £80.2 million.

In 2019 there was cash expenditure of £259.6 million on new assets as the Group continues to invest for future growth comprising investments in new CFCs, development of our next generation fulfilment solutions, and spend on new vehicles and spoke sites.

Other investing activities of £20.0 million included the purchase of equity investments in several companies in the vertical farming and technology sectors.

Net financing cash flows in the period was an inflow of £552.1 million. This included £558.3 million from the proceeds from the disposal of the 50% share of Ocado Retail, £59.5 million of proceeds from the issue of shares, the redemption of £25.0 million of the outstanding Senior Secured Notes and £38.7 million of repayment of other lease liabilities including the lease element of rentals under IFRS16.

Balance sheet

The Group had cash and cash equivalents of £750.6 million at the end of the financial year versus £410.8 million as at 2 December 2018. Gross debt at the period end was £608.2 million (2018: £360.6 million), and includes an adjustment of £279.0 million in respect of IFRS16. Net cash is £142.4 million (2018: £50.2 million).

Trade and Other Receivables includes £61.9 million (2018: £49.1 million) of amounts due from suppliers in respect of commercial and media income. Of this amount £43.1 million (2018: £29.9 million) is within trade receivables, and £18.8 million (2018: £19.2 million) within accrued income.

Trade and Other Payables includes a deferred income provision of £71.3 million in respect of the insurance monies which have not yet been recognised as exceptional income. Within Contract liabilities, £191.8 million (2018: £115.2 million) of amounts are related to Solution contracts, payments made for performance-based payments or progress payments on ongoing service delivery.

Where payments are greater than the revenue recognised at the end of period, a contract liability is recognised for the difference.
Within accrued income, £1.1 million (2018: £3.8 million) is due from our Solutions customers.

An insurance reimbursement asset and an equal provision of £49.2 million has been recognised on the balance sheet for the obligation to restore the original asset at the Andover CFC site under the leasehold agreement.

Included within property, plant and equipment is capital work-in-progress for land and buildings of £0.1 million (2018: £0.1 million) and capital work-in-progress for fixtures, fittings, plant and machinery of £115.1 million (2018: £45.8 million), the increase relating to the numerous UK and international CFCs, with Casino and Sobeys being the majority.

Increasing financing flexibility

In the period, we received £562.5 million from the sale of 50% of the Ocado Retail business to M&S, with a further amount of contingent consideration due to the business in the coming years. This provides the flexibility to take full advantage of the opportunities to grow Ocado Solutions and accelerate development in our platform for both UK and international partners. The £100 million Revolving Credit Facility ("RCF") which was renegotiated in 2017 was not drawn during the year.

Post year end, the Group issued senior unsecured convertible bonds of £600 million with a coupon of 0.875% due in 2025. This allows the Group to diversify its funding sources and capitalise on issuance conditions, securing financial flexibility to support growth opportunities.

Key performance indicators#

The following table sets out a summary of selected unaudited operating information for FY 2019 and FY 2018:

	FY 2019	FY 2018	Variance
Active customers[1] (000's)	**795**	721	10.3%
Mature CFC efficiency (units per hour)[2]	**168**	164	1.8%
Average deliveries per van per week (DPV/week)	**196**	194	1.0%

Source: the information in the table above is derived from information extracted from internal financial and operating reporting systems and is unaudited. Fabled is excluded from both years.

1. Customers are classified as active if they have shopped on ocado.com within the previous 12 weeks
2. Measured as units dispatched from the CFC per variable hour worked by Hatfield CFC and Dordon CFC operational personnel. We consider the mature CFCs to be Hatfield and Dordon

Consolidated Income Statement for the 52 weeks ended 1 December 2019

	Notes	52 weeks ended 1 December 2019 £m	Exceptional items[1] (Note 2.3) £m	Total for 52 weeks ended 1 December 2019 £m	52 weeks ended 2 December 2018[2] £m
Revenue	2.2	1,756.6	-	**1,756.6**	1,598.8
Cost of sales		(1,159.3)	(5.5)	**(1,164.8)**	(1,051.3)
Gross profit		597.3	(5.5)	**591.8**	547.5
Other income		83.9	23.8	**107.7**	71.9
Distribution costs		(564.8)	(7.0)	**(571.8)**	(485.4)
Administrative expenses		(209.9)	(104.3)	**(314.2)**	(167.1)
Operating (loss) before results from joint ventures and associate		(93.5)	(93.0)	**(186.5)**	(33.1)
Share of results from joint ventures and associate	5.2	0.7	-	**0.7**	1.2
Operating (loss)		(92.8)	(93.0)	**(185.8)**	(31.9)
Loss on disposal of subsidiary		-	(1.1)	**(1.1)**	-
Finance income	4.4	3.3	-	**3.3**	2.2
Finance costs	4.4	(30.9)	-	**(30.9)**	(14.7)
Loss before tax		(120.4)	(94.1)	**(214.5)**	(44.4)
Income Tax		2.7	-	**2.7**	(0.5)
Loss for the period		(117.7)	(94.1)	**(211.8)**	(44.9)
Attributable to:					
Owners of Ocado Group plc				**(213.1)**	(44.9)
Non-controlling interests				**1.3**	-
				(211.8)	(44.9)

Loss per share	Notes	pence	pence
Basic and diluted loss per share	2.4	**(29.37)**	(6.85)

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

	Notes	52 weeks ended 1 December 2019 £m	52 weeks ended 2 December 2018[2] £m
Operating loss		**(185.8)**	(31.9)
Adjustments for:			
Depreciation of property, plant and equipment	3.2	**46.0**	63.3
Depreciation of right-of-use assets	3.4	**50.4**	-
Amortisation expense	3.1	**37.3**	27.1
Impairment of property, plant and equipment	3.2	**0.6**	0.5
Impairment of intangible assets	3.1	**1.8**	0.4
Exceptional items*	2.3	**93.0**	0.1
EBITDA*		**43.3**	59.5

1. Exceptional items of £0.1 million in 2018 have been reclassified to administrative expenses in the Consolidated Income Statement for the purposes of presenting the comparative information.
2. EBITDA for the prior period has not been restated for IFRS 16 impacts as per the modified retrospective approach adopted. See note 1.3.

Consolidated Statement of Comprehensive Income for the 52 weeks ended 1 December 2019

	Notes	52 wee ended 1 Decemb 2019 £m
Loss for the period		**(211.8)**
Other comprehensive income:		
Items that may be reclassified to profit or loss in subsequent periods:		
Cash flow hedges		
- Gains arising on hedging contracts	4.5	-
- Losses arising on hedging contracts	4.5	**(1.7)**
Foreign exchange (loss) on translation of foreign subsidiary	4.5	**(0.6)**
Items that will not be reclassified to profit or loss in subsequent periods:		
Gain on equity investments designated as at fair value through other comprehensive income		**2.8**
Reclassification of Jones Food Company equity		**0.1**
Other comprehensive income for the period, net of income tax		**0.6**
Total comprehensive expense for the period		**(211.2)**
Attributable to:		
Owners of Ocado Group plc		**(212.5)**
Non-controlling interests		**1.3**
		(211.2)

Consolidated Balance Sheet as at 1 December 2019

	Notes	1 December 2019 £m	2 December 2018 £m
Non-current assets			
Goodwill	3.1	**4.7**	-
Other intangible assets	3.2	**185.8**	143.2
Property, plant and equipment	3.3	**468.6**	556.7
Right-of-use assets	3.4	**368.8**	-
Deferred tax asset		**27.2**	16.6
Contract assets	2.2	**0.3**	-
Costs to obtain contracts	2.2	**0.8**	0.8
Financial assets		**177.3**	4.1
Investment in joint ventures		**45.8**	52.2
Investment in associate		**4.7**	-
		1,284.0	773.6
Current assets			
Asset held for sale	3.5	**4.2**	4.2
Inventories		**52.3**	56.5
Contract assets	2.2	**0.1**	-
Trade and other receivables		**150.0**	104.7
Insurance reimbursement asset		**49.2**	-
Derivative financial instruments		-	0.1
Financial assets		**2.8**	-
Cash and cash equivalents		**750.6**	410.8

		1,009.2	576.3
Total assets		**2,293.2**	1,349.9
Current liabilities			
Trade and other payables		**(349.6)**	(291.0)
Contract liabilities	2.2	**(5.1)**	(6.6)
Lease liabilities	4.2	**(50.1)**	(22.9)
Derivative financial instruments		**(0.5)**	(0.5)
Provisions		**(54.0)**	(8.3)
		(459.3)	(329.3)
Net current assets		**549.9**	247.0
Non-current liabilities			
Contract liabilities	2.2	**(186.7)**	(108.6)
Borrowings	4.1	**(219.7)**	(244.3)
Lease liabilities	4.2	**(338.4)**	(93.4)
Provisions		**(14.5)**	(8.8)
Deferred tax liabilities		**(16.3)**	(8.9)
		(775.6)	(464.0)
Net assets		**1,058.3**	556.6
Equity			
Share capital	4.5	**14.2**	14.0
Share premium	4.5	**705.3**	589.9
Treasury shares reserve	4.5	**(113.6)**	(9.2)
Reverse acquisition reserve	4.5	**(116.2)**	(116.2)
Other reserves	4.5	**4.0**	1.4
Retained earnings		**555.2**	76.7
Equity attributable to owners of Ocado Group plc		**1,048.9**	556.6
Non-controlling interests		**9.4**	-
Total equity		**1,058.3**	556.6

Consolidated Statement of Changes in Equity for the 52 weeks ended 1 December 2019

	Attributable to Owners of Ocado Group plc								
	Share capital	Share premium	Treasury shares reserve	Reverse acquisition reserve	Other reserves	Retained earnings	Total	Non-Controlling Interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 3 December 2017[1]	**12.6**	**261.3**	**(48.0)**	**(116.2)**	**0.7**	**137.2**	**247.6**	**-**	**247.6**
Loss for the period	-	-	-	-	-	(44.9)	(44.9)	-	(44.9)
Other comprehensive income:									
Cash flow hedges									
- Gains arising on hedging contracts	-	-	-	-	1.0	-	1.0	-	1.0
- Losses arising on hedging contracts	-	-	-	-	-	-	-	-	-
Translation of foreign subsidiary	-	-	-	-	(0.3)	-	(0.3)	-	(0.3)
Total comprehensive income/(expense) for the period ended 2 December 2018	**-**	**-**	**-**	**-**	**0.7**	**(44.9)**	**(44.2)**	**-**	**(44.2)**
Transactions with owners:									
- Issues of ordinary shares	1.3	322.1	-	-	-	-	323.4	-	323.4
- Allotted in respect of share option schemes	0.1	6.2	-	-	-	-	6.3	-	6.3
- Disposal of treasury shares	-	-	11.7	-	-	3.5	15.2	-	15.2

- Transfer of treasury shares to participants	-	-	27.8	-	-	(27.8)	-	-	-
-	-	0.3	(0.7)	-	-	0.4	-	-	-
- Reclassification between reserves	-	-	-	-	-	6.1	6.1	-	6.1
- Share-based payments charge									
- Disposal of Ocado Information Technology Ltd	-	-	-	-	-	2.2	2.2	-	2.2
Total transactions with owners	1.4	328.6	38.8	-	-	(15.6)	353.2	-	353.2
Balance at 2 December 2018[1]	14.0	589.9	(9.2)	(116.2)	1.4	76.7	556.6	-	556.6
IFRS 9: Impact of change in accounting policy	-	-	-	-	2.0	-	2.0	-	2.0
Adjusted balance at 2 December 2018[1]	14.0	589.9	(9.2)	(116.2)	3.4	76.7	558.6	-	558.6
Loss for the period	-	-	-	-	-	(213.1)	(213.1)	1.3	(211.8)
Other comprehensive income:									
Cash flow hedges									
- Gains arising on hedging contracts	-	-	-	-	- (1.7)	-	- (1.7)	-	- (1.7)
- Losses arising on hedging contracts									
Translation of foreign subsidiary	-	-	-	-	(0.6)	-	(0.6)	-	(0.6)
Gain on equity investments designated as at FVTOCI	-	-	-	-	2.8	-	2.8	-	2.8
Reclassification of equity of Jones Food Company	-	-	-	-	0.1	-	0.1	-	0.1
Total comprehensive income/(expense) for the period ended 1 December 2019	-	-	-	-	0.6	(213.1)	(212.5)	1.3	(211.2)
Transactions with owners:	-	-	-	-	-	-	-	-	-
- Issues of ordinary shares	0.2	113.0	(111.1)	-	-	-	2.1	-	2.1
- Allotted in respect of share option schemes	-	2.4	-	-	-	-	2.4	-	2.4
- Disposal of treasury shares on exercise by participants	-	-	0.5	-	-	0.3	0.8	-	0.8
- Disposal of unallocated treasury shares	-	-	5.7	-	-	48.5	54.2	-	54.2
- Transfer of treasury shares to participants	-	-	0.8	-	-	(0.8)	-	-	-
- Reclassification between reserves	-	-	(0.3)	-	-	0.3	-	-	-
- Growth Incentive Plan cash settlement on vesting	-	-	-	-	-	(80.2)	(80.2)	-	(80.2)
- Share-based payments charge	-	-	-	-	-	12.8	12.8	-	12.8
- Part-disposal of Ocado Retail	-	-	-	-	-	710.7	710.7	6.0	716.7
- Acquisition of Jones Food Company	-	-	-	-	-	-	-	2.1	2.1
Total transactions with owners	0.2	115.4	(104.4)	-	-	691.6	702.8	8.1	710.9
Balance at 1 December 2019	14.2	705.3	(113.6)	(116.2)	4.0	555.2	1,048.9	9.4	1,058.3

1. Historic losses on the disposal of treasury shares of £2.9 million have been reclassified from share premium to retained earnings, and reflected in balance at 3 December 2017 and balance and adjusted balance at 2 December 2018.

Consolidated Statement of Cash Flows for the 52 weeks ended 1 December 2019

			52 weeks ended 1 December 2019	52 weeks ended 2 December 2018
		Notes	£m	£m
Cash flows from operating activities				
Loss before tax			**(214.5)**	(44.4)
Adjustments for:				
-	Depreciation, amortisation and impairment losses	3.2, 3.3, 3.4	**233.0**	91.3
-	Write-off of fixed assets, intangible assets and inventories	2.3	**9.5**	-
-	Movement in provisions		**(1.0)**	7.0
-	Share of result from joint ventures		**(0.9)**	(1.2)
-	Share of result from associate		**0.2**	-
-	Net loss on derivative financial instruments		**(1.7)**	-
-	Revenue from long-term contracts		**(2.9)**	-
-	Other income from insurance proceeds		**(23.8)**	-
-	Share-based payments charge		**12.8**	6.1
-	Net finance costs	4.4	**27.6**	12.5
-	Movement in costs to obtain contracts		**-**	(0.8)
-	Settlement of cash flow hedges		**(0.1)**	1.6
Changes in working capital:				
-	Movement in inventories		**(7.6)**	(13.6)
-	Movement in trade and other receivables		**(29.4)**	(36.1)
-	Movement in trade and other payables		**8.0**	55.0
-	Movement in contract liabilities		**79.5**	65.5
Cash generated from operations			**88.7**	142.9
Interest paid			**(30.6)**	(14.5)
Cash settlement from GIP			**(80.2)**	-
Insurance proceeds relating to destroyed inventory and business interruption			**73.8**	-
Net cash flows from operating activities			**51.7**	128.4
Cash flows from investing activities				
Purchase of property, plant and equipment			**(175.5)**	(112.8)
Purchase of intangible assets			**(84.1)**	(57.3)
Proceeds from disposal of Fabled, net of cash sold			**(0.5)**	
Dividend received from joint venture			**15.6**	-
Purchase of investment in associate and joint venture			**(13.6)**	-
Purchase of Jones Food Company, net of cash acquired			**(7.6)**	-
Purchase of unlisted equity investments			**(1.6)**	-
Interest received			**3.3**	2.2
Net cash flows from/(used in) investing activities			**(264.0)**	(167.9)
Cash flows from financing activities				
Proceeds from the issue of ordinary share capital, net of transaction costs			**0.8**	333.1
Proceeds from allotment of share options			**2.4**	-

Proceeds from disposal of treasury shares on exercise by participants	**0.8**	-
Proceeds from Value Creation Plan - jointly-owned equity awards	**1.3**	
Proceeds from the disposal of unallocated treasury shares, net of transaction costs	**54.2**	-
Proceeds from part-disposal of Ocado Retail, net of transaction costs	**558.3**	-
Repayment of borrowings	**(25.0)**	-
Repayments of lease liabilities	**(40.2)**	(32.0)
Payment of financing fees	**(0.5)**	(0.8)
Net cash flows used in/(from) financing activities	**552.1**	300.3
Net increase in cash and cash equivalents	**339.8**	260.8
Cash and cash equivalents at the beginning of the period	**410.8**	150.0
Cash and Cash Equivalents at the end of the Period	**750.6**	410.8

Notes to the Consolidated Financial Statements

Section 1 - Basis of Preparation

1.1 General Information

Ocado Group plc (hereafter "the Company") is a listed company incorporated in the United Kingdom under the Companies Act 2006 (Registration number 07098618). The Company is the parent and the ultimate parent of the Group. The address of its registered office is Buildings 1 & 2 Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9UL. The financial statements comprise the results of the Company and its subsidiaries (hereafter "the Group"), see note 5.1. The financial period represents the 52 weeks ended 1 December 2019. The prior financial period represents the 52 weeks ended 1 December 2018.

1.2 Basis of Preparation

The financial statements have been prepared in accordance with the Listing Rules and the Disclosure Guidance and Transparency Rules of the UK Financial Conduct Authority (where applicable), International Financial Reporting Standards (IFRS) and International Financial Reporting Standards 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 2 December 2018 of Ocado Group plc, with the exception of the adoption of IFRS 9 "Financial Instruments" and early adoption of IFRS 16 "Leases".

The financial information does not amount to full statutory accounts within the meaning of section 434 of the Companies Act 2006 and does not include all of the information and disclosures required for full annual financial statements. It should be read in conjunction with the Annual Report and Accounts of Ocado Group plc for the 52 weeks ended 2 December 2018 which was prepared in accordance with IFRS as adopted by the European Union and were filed with the Registrar of Companies. This report is available either on request from the Company's registered office or to download from www.ocadogroup.com. The auditor's report on these accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

The financial statements are presented in pounds sterling, rounded to the nearest hundred thousand unless otherwise stated. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial asset investments and certain financial assets and liabilities, which are held at fair value.

The Directors considered it appropriate to adopt the going concern basis of accounting in preparing in the financial statements of the Group.

New Standards, Amendments and Interpretations Adopted by the Group

In the current period, the Group has adopted IFRS 9 "Financial Instruments" and IFRS 16 "Leases" for the first time.

Due to the transition methods chosen by the Group in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards. Rather, reclassifications and any adjustments arising from the adoption of IFRS 9 and IFRS 16 have been recognised in the opening equity balances as at 3 December 2018. Accordingly, the Group is not required to present a third Balance Sheet. See note 1.3 for further information.

The Group has also considered the following new standards, interpretations and amendments to published standards that are effective for the Group for the financial year beginning 3 December 2018 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 other than disclosures:

		Effective Date
IFRS 2	Share-based Payment (amendments)	1 January 2018
IFRS 4	Insurance Contracts (amendments)	1 January 2018
IAS 40	Investment Property (amendments)	1 January 2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
Annual Improvements to IFRSs 2014-2016 Cycle	Amendments to IFRS 1, IFRS 12 and IAS 28	1 January 2018

New Standards, Amendments and Interpretations Not Yet Adopted by the Group
The following further new standards, interpretations and amendments to published standards and interpretations which are relevant to the Group have been issued but are not effective for the financial year beginning 3 December 2018 and have not been adopted early:

		Effective Date
IFRS 9	Financial Instruments (amendments)	1 January 2019
IAS 19	Employee Benefits (amendments)	1 January 2019
IAS 28	Investments in Associates and Joint Ventures (amendments)	1 January 2019
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	1 January 2019
IFRS 3	Business Combinations (amendments)	1 January 2019
IAS 1, IAS 8	Definition of Material (amendments to IAS 1 and IAS 8)	1 January 2020
Various	Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
IFRS 17	Insurance Contracts	1 January 2021
IFRS 10	Consolidated Financial Statements (amendments)	Deferred
IAS 28	Investments in Associates and Joint Ventures (amendments)	Deferred

These standards, interpretations and amendments to published standards and interpretations are not expected to have a material impact on the Group's financial statements.

1.3 Changes in Significant Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of IFRS 9 "Financial Instruments" and IFRS 16 "Leases".

Initial Adoption of IFRS 9 "Financial Instruments"
IFRS 9 "Financial Instruments" replaces IAS 39 "Financial Instruments: Recognition and Measurement" for financial periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The main changes the new standard introduced were:

- New requirements for the classification and measurement of financial assets and financial liabilities;
- A new model for recognising impairment of financial assets; and
- Changes to hedge accounting by aligning hedge accounting more closely to an entity's risk management objectives.

The Group has chosen not to restate comparative information on adoption of IFRS 9 and, therefore, reclassifications and any adjustments arising from the adoption of IFRS 9 are recognised in the opening equity balances as at 3 December 2018. In accordance with IFRS 9 transition guidance, comparative financial information in the primary financial statements remains compliant with the classification and measurement requirements of IAS 39.

Classification and Measurement

IFRS 9 introduced a principles-based approach to the classification of financial assets. Classification is determined by the business model in which the financial assets are managed and their contractual cash flow characteristics. Financial assets are measured at fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVTOCI) or amortised cost. These categories replace the existing IAS 39 classifications. For financial liabilities, most of the pre-existing requirements for classification and measurement previously included in IAS 39 were carried forward unchanged into IFRS 9.

An assessment of the Group's business models was made as at the date of initial application on 3 December 2018 and applied prospectively. The Group has elected to classify its unlisted equity investments as FVTOCI as it intends to hold these investments for the foreseeable future. A summary of the respective classifications under IAS 39 and IFRS 9 is presented below:

	Measurement Category		**Carrying Amount as at 3 December 2018**		
	Original (IAS 39)	**New (IFRS 9)**	**Original £m**	**New £m**	**Difference £m**
Non-current financial assets					
Unlisted equity investment	Available for sale	FVTOCI	0.4	**2.4**	2.0[1]
Other receivables	Loans and receivables	Amortised cost	3.7	**3.7**	-
Current financial assets					
Trade receivables	Loans and receivables	Amortised cost	52.4	**52.4**	-
Other receivables	Loans and receivables	Amortised cost	39.4	**39.4**	-
Derivatives	FVTPL	FVTPL	0.1	**0.1**	-
Cash and cash equivalents	Loans and receivables	Amortised cost	410.8	**410.8**	-
Current financial liabilities					
Trade payables	Amortised cost	Amortised cost	133.4	**133.4**	-
Other payables	Amortised cost	Amortised cost	135.2	**135.2**	-
Lease liabilities	Amortised cost	Amortised cost	22.9	**22.9**	-
Derivative financial instruments	FVTPL	FVTPL	0.5	**0.5**	-
Non-current financial liabilities					
Senior secured notes	Amortised cost	Amortised cost	244.3	**244.3**	-
Lease liabilities	Amortised cost	Amortised cost	93.4	**93.4**	-

1. Previously the Group measured the investment at cost less impairment as permitted by IAS 39. Measurement at cost is no longer permitted and an election to measure the investment at FVTOCI has been made.

Impairment

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model when calculating impairment losses on financial assets measured at amortised cost. Under IFRS 9, credit losses are recognised earlier than under IAS 39 and therefore for assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile.

The Group was required to revise its impairment methodology under IFRS 9. The Group applies the IFRS 9 simplified approach to measuring expected credit losses for trade receivables, which uses a lifetime expected loss allowance.

The Group has found there to be an immaterial difference between the IAS 39 'incurred loss' model and the IFRS 9 'expected credit loss' model. See note 3.10 in the consolidated financial statements for further details on the impact of the change in methodology.

Hedge Accounting

In accordance with IFRS 9's transition provisions for hedge accounting, the Group has elected to continue applying the hedge accounting requirements of IAS 39.

Initial Adoption of IFRS 16 "Leases"

IFRS 16 "Leases" replaces IAS 17 "Leases". The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

The standard has an effective date of 1 January 2019 but the Group has decided to early adopt IFRS 16 as it will provide more reliable and useful information to investors and other stakeholders and allow the Group to remain more readily comparable to competitors who will be adopting the standard during the 2019/20 reporting season.

IFRS 16 has been applied using the modified retrospective approach with the date of initial application of 3 December 2018. Under this approach the cumulative effect of initial application, if any, is recognised in retained earnings at 3 December 2018. Prior periods have not been restated.

On adoption of IFRS 16 the Group has recognised lease liabilities in relation to leases which had previously been classified as operating leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate as of 3 December 2018.

For leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

Practical Expedients Applied

The Group has used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases:

- Applying a single discount rate to a portfolio of leases with similar characteristics;
- Relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review - there were no onerous contracts as at 3 December 2018;
- Excluding initial direct costs from measuring the right-of-use asset at the date of initial application; and
- Using hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

The Group has applied the exemption not to recognise the right-of-use assets and liabilities for leases with a remaining lease term of less than 12 months from the date of initial application.

Upon transition several contracts that had previously been identified as leases, and included within the operating lease commitments note at 2 December 2018, were reassessed and determined not to be leases.

Measurement of Lease Liabilities

The following is a reconciliation of total operating lease commitments disclosed at 2 December 2018 with the lease liabilities recognised at 3 December 2018:

	£m
Total operating lease commitments disclosed under IAS 17 at 2 December 2018	**408.3**
Contracts reassessed as non-lease contracts	**(18.2)**
Operating lease liabilities before discounting	**390.1**
Operating lease liabilities after discounting	**283.1**
Finance lease liabilities recognised under IAS 17 at 2 December 2018	**116.3**
Total lease liabilities recognised under IFRS 16 at 3 December 2018	**399.4**
Representing:	
Current lease liabilities	**35.2**
Non-current lease liabilities	**364.2**
	399.4

Measurement of Right-of-Use Assets

The Group has elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition, including unamortised lease incentives.

Adjustments Recognised on the Balance Sheet on 3 December 2018

The following is a reconciliation of the financial statement line items from IAS 17 to IFRS 16 at 3 December 2018:

	Notes	Carrying Amount at 2 December 2018 £m	Reclassification £m	Remeasurement £m	**IFRS 16 Carrying Amount at 3 December 2018 £m**
Property, plant and equipment	3.3	556.7	(114.1)	-	**442.6**
Right-of-use assets	3.4	-	114.1	275.9	**390**
Trade and other receivables		104.7	-	(0.9)	**103.8**

Trade and other payables		(291.0)	-	11.3	**(279.7)**
Lease liabilities	4.2	(116.3)	-	(283.1)	**(399.4)**
Provisions		(17.1)	-	(3.2)	**(20.3)**
Total		237.0	-	-	**237.0**

The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets of £275.9 million, lease liabilities of £283.1 million and dilapidations provisions of £3.2 million.

Assets under finance lease arrangements of £114.1 million previously presented within property, plant and equipment were reclassified to right-of-use assets.

Lease incentive liabilities of £11.3 million previously recognised with respect to operating leases and previously presented within trade and other payables are now presented in the right-of-use assets line.

Prepaid lease payments of £0.9 million previously recognised with respect to operating leases and previously presented within trade and other receivables were reclassified in the right-of-use assets line.

There was no net effect on retained earnings at 3 December 2018.

Section 2 - Results for the Period

2.1 Segmental Reporting

The Group's principal activities are grocery retailing and the development and monetisation of Intellectual Property ("IP") and technology used for online grocery retailing, fulfilment and logistic services in the UK. The Group is not currently reliant on any major customer for 10.0% or more of its revenue.

In accordance with IFRS 8 "Operating Segments", an operating segment is defined as a business activity whose operating results are reviewed by the chief operating decision-maker ("CODM"), for which discrete information is available. Operating segments are reported in a manner consistent with the internal reporting provided to the CODM, as required by IFRS 8. The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Directors.

The separation of Ocado's Retail and Logistics operations into distinct business units and the creation of the joint venture with M&S have led to changes in how the management team reports and manages performance. The Group has determined it now has three reportable segments: Retail, UK Solutions and International Solutions. The 2019 segmental disclosures have been prepared to reflect this structure for the full year, with the 2018 comparatives represented on this basis.

The Retail segment provides online grocery and general merchandise offerings to customers within the United Kingdom, and comprises the Ocado Retail joint venture. The UK Solutions segment provides the IT platform, CFCs and logistics for customers in the United Kingdom (Morrisons and Ocado Retail). The international Solutions segment provides end-to-end online retail solution to corporate customers outside the United Kingdom. In order to reconcile segmental revenues and EBITA with the Group's revenue and EBITA two other headings are used: "other" represents revenue and costs which do not relate to any of the three segments; "Group Eliminations" relates to revenue and costs arising from intra group transactions.

The Board assesses the performance of all segments on the basis of EBITDA*. EBITDA* as reported internally by segment, is the key measure utilised in assessing the performance of operating segments within the Group.

The accounting policies of the segments are the same as those for the Group as a whole. Any transactions between the business segments are subject to normal commercial terms and market conditions. Segment results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment revenue and EBITDA*	Retail £m	UK Solutions £m	International Solutions £m	Other £m	Group Eliminations £m	Total £m
2018[1]						
Segment revenue	1,466.6	541.1	0.5	9.2	(418.6)	1,598.8
Segment EBITDA*	30.1	67.5	(28.4)	(9.7)	-	59.5
2019						
Segment revenue	**1,617.5**	**583.2**	**0.5**	**9.8**	**(454.4)**	**1,756.6**
Segment EBITDA	**35.0**	**84.8**	**(62.1)**	**(14.4)**	-	**43.3**

1. Prior period revenue and EBITDA are re-presented to reflect the change in the reportable segments during the period.

No measure of total assets and total liabilities is reported for each reportable segment, as such amounts are not regularly provided to the chief operating decision-maker.

2.2 Revenue from Contracts with Customers

Disaggregation of revenue from contracts with customers

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	52 weeks ended 1 December 2019	52 weeks ended 2 December 2018
Segment Revenue	**£m**	£m
Retail	**1,617.5**	1,466.6
UK Solutions	**583.2**	541.1
International Solutions	**0.5**	0.5
Other	**9.8**	9.2
Group Eliminations	**(454.5)**	(418.6)
	1,756.6	1,598.8
Timing of revenue recognition		
At a point in time	**1,626.4**	1,475.8
Over time	**130.2**	123.0
	1756.6	1,598.8

Contract balances

	1 December 2019	2 December 2018	3 December 2017
	£m	£m	£m
Trade receivables	**12.3**	8.6	8.6
Contract assets	**0.4**	-	-
Contract liabilities	**(191.8)**	(115.2)	(49.7)

Analysis of total contract assets:

	1 December 2019	2 December 2018	3 December 2017
	£m	£m	£m
Current	**0.1**	-	-
Non-current	**0.3**	-	-
	0.4	-	-

The contract assets represents Solutions revenue recognised in the Consolidated Income Statement, but not yet invoiced:

Significant changes in the contract assets balance during the period are as follows:

	1 December 2019 Contract liabilities £m	2 December 2018 Contract liabilities £m
At beginning of the period	-	-
Recognised as revenue	**0.4**	-
At the end of the period	**0.4**	-

Analysis of total contract liabilities:

	1 December 2019	2 December 2018	3 December 2017
	£m	£m	£m
Current	**(5.1)**	(6.6)	(4.7)
Non-current	**(186.7)**	(108.6)	(45.0)
	(191.8)	(115.2)	(49.7)

The contract liabilities primarily relate to the advance consideration received from customers for Solutions contracts, for which revenue is recognised as the performance obligation is satisfied.

Significant changes in the contract liabilities balance during the period are as follows:

	1 December 2019 Contract liabilities £m	2 December 2018 Contract liabilities £m
At beginning of the period	**(115.2)**	(49.7)
Increase due to the cash received	**(79.5)**	(70.2)
Recognised as revenue	**2.9**	4.7
At the end of the period	**(191.8)**	(115.2)

Set out below is the amount of revenue recognised from:

	52 Weeks Ended 1 December 2019 £'000	52 Weeks Ended 2 December 2018 £'000
Amount included in the contract liabilities at the beginning of the year	**2.9**	4.7

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) is as follows:

	1 December 2019 £m	2 December 2018 £m
Within one year	**114.5**	112.0
Between one and five years	**1,004.9**	833.4
More than five years	**3,308.8**	2,135.6
Total transaction price	**4,428.2**	3,081.0

Total transaction price includes £1,824.0 million (2018: £1,736.3 million) in respect of potential revenues in relation to the recovery of costs that are expected to be incurred in existing Solutions contracts.

The amounts disclosed above in respect of unsatisfied and partially unsatisfied performance obligations do not include estimates of any amounts that will arise if the customer continues to receive services beyond our estimate of the contract term. In addition, they are reduced, during the contract term, so as to limit our estimate of future variable amounts to a conservative amount that is "highly probable". For additional information in respect of key judgements, please refer to note 2.1 on the consolidated financial statements. The figures disclosed do not include any incremental amounts in relation to CFCs and other solutions to which a customer is not yet committed. However, they do include any amounts that are payable by the customer irrespective of whether an option for future CFCs and other solutions is exercised (e.g. amounts that are equivalent to a non-refundable deposit).

Costs to obtain contracts

	52 Weeks Ended 1 December 2019 £m	52 Weeks Ended 2 December 2018 £m
At the beginning of the period	**0.8**	-
Additions	-	0.8
At the end of the period	**0.8**	0.8

Management expects that the incremental costs of obtaining the contract (i.e. sales bonus) are recoverable. The Group has therefore capitalises them as costs to obtain contracts.

These capitalised costs will be amortised over the period of transferring goods or services to the customer.

2.3 Exceptional Items*

	52 weeks ended 1 December 2019 £m	52 weeks ended 2 December 2018 £m
Andover CFC		
- Write off of property, plant and equipment	**96.9**	-
- Write off of intangible assets	**2.1**	-

- Loss of inventory	**5.5**	-
- Insurance reimbursement	**(23.8)**	-
- Other exceptional costs	**7.3**	-
Loss on disposal of Marie Claire Beauty Limited ("Fabled")	**1.1**	-
Costs on creation of joint venture with Marks & Spencer	**3.4**	-
Litigation costs	**1.3**	0.1
Other exceptional costs	**0.3**	-
	94.1	0.1

Andover CFC

In February 2019 a fire destroyed the Andover CFC, including the building, machinery and all inventory held on site. The Group has comprehensive insurance and claims have been formally accepted by the insurers.

Write-off of Property, Plant and Equipment and Intangible Assets

Property, plant and equipment with a net book value of £96.9 million was destroyed or damaged to the extent that no amount is expected to be recoverable. Where amounts are expected to be recovered, for example through scrap proceeds, those assets are impaired to that recoverable amount. Intangible assets with a net book value of £2.1 million were written off as it was determined these costs were specific to the Andover location and infrastructure.

Loss of Inventory

Inventory held at cost of £5.5 million was destroyed by the fire.

Other Exceptional Costs

These include, but are not limited to, temporary costs of transporting employees to other warehouses to work, professional fees relating to the insurance claims process, reimbursement of employee's personal assets that were destroyed and redundancy costs.

Insurance Reimbursement

This includes insurance reimbursements for the retail price of destroyed inventory and other incremental costs plus a portion of business interruption losses. The reimbursement has been presented within "other income".

The Group expects to receive further insurance reimbursements in respect of reconstruction costs and business interruption losses. Claim negotiations are on-going and the Group has not included any further amount in respect of these reimbursements as the likely insurance proceeds cannot be accurately quantified at this point. Income will be recognised in the future as the rebuilding costs of the CFC and further interruption costs are incurred.

Disposal of Fabled

On 8 July 2019 the Group sold Fabled, its wholly-owned subsidiary, to Next Holdings Limited for a small upfront payment and an earn-out based on sales in each of the four years ending January 2021 - 2024, with a minimum guaranteed payment of £3.0 million. At the time of the sale, the fair value of the consideration was determined to be £15.5 million, resulting in a profit on disposal of £8.8 million. At 1 December 2019 the fair value was estimated to be £5.6 million. The loss of £9.9 million has been deducted from the profit on disposal, creating a loss of £1.1 million. The consideration receivable has been recognised as a financial asset at fair value through profit or loss. In January 2020 £2.9m was received by Ocado as an initial payment of the consideration.

	52 Weeks Ended 1 December 2019 £m
Consideration received:	
Cash	-
Fair value of contingent consideration	**5.6**
Total disposal consideration	**5.6**
Less: Carrying amount of net assets sold	**(6.3)**
Less: Transaction fees	**(0.4)**
Loss on disposal	**(1.1)**

The carrying amounts of Fabled's assets and liabilities as at the date of sale were:

	8 July 2019 £m

Property, plant and equipment	**1.2**
Trade and other receivables	**2.0**
Inventories	**6.2**
Cash and cash equivalents	**0.3**
Total assets	**9.7**
Trade and other payables	**(3.4)**
Total liabilities	**(3.4)**
Net assets	**6.3**

Joint venture with Marks & Spencer ("M&S")

In August 2019 the Group completed the creation of a new 50:50 joint venture with M&S. The joint venture comprises Ocado's grocery retail business in the United Kingdom supported by a new partnership for Solutions services underpinned by Ocado Smart Platform and the provision of branding and sourcing from M&S. M&S products will be available on Ocado.com by September 2020, replacing Ocado's current sourcing agreement with Waitrose Limited. M&S has paid Ocado £562.5 million cash up-front and has agreed to a deferred cash payment of £187.5 million five years after completion dependent on the satisfaction of certain financial and operational conditions. The difference between the fair value of the identifiable net assets of Ocado Retail and the fair value of the consideration received has been recognised directly in equity and attributed to the owners of the Group (see note 5.2 to the consolidated financial statements). The contingent consideration receivable has been recognised as a financial asset at fair value through profit or loss (see note 3.5 to the consolidated financial statements).

Whilst certain costs relating to the transaction are permitted to be accounted for directly within equity, there are others that do not meet the requirements and as a result have been reported as exceptional costs. These include, but are not limited to, legal fees for advice relating to TUPE regulations, contractors' fees incurred relating to transitional arrangements and accelerated share-based payment expenses for those employees who transferred to the new joint venture.

Litigation costs

The Group has made a claim for damages and for injunctive relief against Jonathan Faiman, Jonathan Hilary and Project Today Holdings Limited, a software and online fulfilment company trading under the name T0day, because of the theft and unlawful use of Group Intellectual Property. We strongly believe in the merit of our case. Ocado's intellectual property is its greatest asset and represents a significant portion of the Group's value; we have spent the last 20 years developing our intellectual property, technology and know-how. The Group relishes fair competition but will vigorously protect its intellectual property and challenge any individual or organisation that uses illegally obtained information, either directly or indirectly. The Group is resolute that it will protect all of its stakeholders' interests.

Legal and other costs have been incurred to recover the stolen items and seek compensation.

There have been no material tax effects arising from exceptional items. For cash flow effects from exceptional items refer to the consolidated statement of cash flows on page 155.

2.4 Loss Per Share

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company 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 ("JSOS"), which are accounted for as treasury shares.

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion or vesting of all dilutive potential shares. The Company has three classes of instruments that are potentially dilutive: share options, share interests held pursuant to the Group's JSOS and shares under the Group's staff incentive plans.

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 was anti-dilutive.

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

	52 weeks ended 1 December 2019 Million	52 weeks ended 2 December 2018 Million
Weighted average number of shares for the period	**725.7**	655.4
	£m	**£m**
Loss attributable to the owners of the Company	**(213.1)**	(44.9)
	Pence	**pence**
Basic and diluted loss per share	**(29.37)**	(6.85)

Section 3 - Assets and liabilities
3.1 Business Combinations

Accounting Policies

Business Combinations

The acquisition method of accounting is used for the acquisition of subsidiaries. The cost of the acquisition is measured at the aggregate fair value of the consideration given. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business Combinations" are recognised at their fair value at the date the Group assumes control of the acquiree.

Acquisition related costs are recognised in the Consolidated Income Statement as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement measured at fair value at the date control is achieved. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRS Standards.

On 7 June 2019 the Group acquired 64.1% of the issued share capital of Jones Food Company Limited, a non-listed company based in England and specialising in vertical farming, thereby obtaining control. The acquisition was made to allow access to advanced growing technology that will enable the Group to offer the freshest and most sustainable produce that could be delivered to a customer's kitchen within an hour of it being picked, complementing the Group's existing businesses.

The Group has elected to measure the non-controlling interest in Jones Food Company Limited as the proportionate share of its interest in Jones Food Company's identifiable net assets.

Assets Acquired and Liabilities Assumed

The fair values of the identifiable assets and liabilities of Jones Food Company Limited as at the date of acquisition were:

	Fair Value Recognised on Acquisition £m
Assets	
Property, plant and equipment	**5.5**
Trade and other receivables	**0.1**
Cash and cash equivalents	**1.0**
	6.6
Liabilities	
Trade and other payables	**(0.5)**
Total identifiable net assets at fair value	**6.1**

Consideration transferred	**8.6**
Add: non-controlling interest (35.9% of net assets)	**2.2**
Less: fair value of identifiable net assets	**(6.1)**
Goodwill	**4.7**

Analysis of cash flows on acquisition	**Cash Flow on Acquisition £m**
Transaction costs of the acquisition (included in cash flows from operating activities)	**(0.1)**
Net cash acquired with the subsidiary (included in cash flows from investing activities)	**1.0**
Cash Paid	**(8.6)**
Net cash flow on acquisition	**(7.7)**

The acquisition of Jones Food Company was settled in cash amounting to £8.6 million. Transaction costs of £0.1 million were expensed and are included in administrative expenses.

The goodwill of £4.7 million is primarily related to the skills and expertise of Jones Food Company's workforce and expectations of growth. Goodwill is allocated entirely to the 'Other' segment and is not expected to be deductible for tax purposes.

From the date of acquisition, Jones Food Company contributed revenue of £0.1 million and a loss of £1.1 million to the Group's results. If the acquisition had occurred at the beginning of the year, the Group estimates that consolidated revenue would have been £0.1 million and consolidated loss before tax would have been £1.7 million.

Goodwill

The movements in the net carrying amount of goodwill are as follows:

	Goodwill £m
Cost	
At 3 December 2017 and 2 December 2018	-
Acquired through business combination	**4.7**
At 1 December 2019	**4.7**
Accumulated impairment	
At 3 December 2017 and 2 December 2018	-
Impairment loss	-
At 1 December 2019	**-**
Net book value	
At 2 December 2018	-
At 1 December 2019	**4.7**

For the purpose of annual impairment testing, goodwill has been allocated to the 'Other' operating segment. The acquisition of Jones Food Company occurred very recently during the current period. At the time of writing, there were no indicators to suggest that the goodwill has been impaired. The fair value at acquisition of the business still holds true at period end. Management have considered areas such as the skills and expertise of Jones Food Company's workforce and expectations of growth from acquisition and can conclude that they have not identified an impairment to be recognised.

Investments in Subsidiaries

Investments in subsidiaries held by the Company are carried at cost less accumulated impairment losses. Goodwill is the excess of consideration transferred over the fair value of the identifiable net assets acquired.

There was one (2018: zero) significant investment in new subsidiaries during the 52 weeks to 1 December 2019, being that in Jones Food Company.

3.2 Other Intangible Assets

Accounting Policies

Intangible Assets

Intangible assets, other than goodwill, comprise internally generated assets relating mainly to computer software and other intangible assets relating mainly to externally acquired computer software and assets, and the right to use land. These are carried at cost less accumulated amortisation and any recognised impairment loss. Other intangible assets such as externally acquired computer software and software licences are capitalised and amortised on a straight-line basis over their useful lives of three to fifteen years. Costs relating to the development of computer software for internal use are capitalised once all the development phase recognition criteria of IAS 38 "Intangible Assets" are met. When the software is available for its intended use, these costs are amortised in equal annual amounts over the estimated useful life of the software. Amortisation and impairment of computer software or licences are charged to administrative expenses in the period in which they arise. For the Group's impairment policy on non-financial assets see note 3.3.

Amortisation of intangible assets is calculated on a straight-line basis from the date on which they are brought into use, charged to administrative expenses, and is calculated based on the useful lives indicated below:

Internally generated assets 3 - 15 years, or the lease term if shorter

Other intangible assets 3 - 15 years, or the lease term if shorter

Right to use land The estimated useful economic life, or the lease term if shorter

Amortisation periods and methods are reviewed annually and adjusted if appropriate.

Cost Capitalisation
The cost of internally generated assets is capitalised as an intangible asset where it is determined by management's judgement that the ability to develop the assets is technically feasible, will be completed, and that the asset will generate economic benefit that outweighs its cost. This is in line with the recognition criteria as outlined in IAS 38 "Intangible Assets". Management determines whether the nature of the projects meets the recognition criteria to allow for the capitalisation of internal costs, which include the total cost of any external products or services and labour costs directly attributable to development. During the year management has considered whether costs in relation to the time spent on specific software projects can be capitalised. Time spent that was eligible for capitalisation included time which was intrinsic to the development of new assets, CFC and General Merchandise Distribution Centre, and the enhancement and efficiency improvements of existing warehouse system capabilities to accommodate expanding capacity and scalable opportunities. Time has also been spent to continuously implement and integrate the functionality of the Ocado Smart Platform used by the Group's customers.

Other development costs that do not meet the above criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Research expenditure is recognised as an expense as incurred. These are costs that form part of the intent of gaining new knowledge, which management assesses as not satisfying the capitalisation criteria per IAS 38 "Intangible Assets" as outlined above. Examples of research costs include, but are not limited to, the following: salaries and benefits of employees assessing and analysing future technologies and their likely viability, and professional fees such as marketing costs and the cost of third party consultancy.

In certain circumstances, some assets are ready for use, but are not performing as intended by management. Development costs that relate to the enhancement or modifications of existing assets are capitalised until the asset is performing as intended by management. Management assesses the capitalisation of these costs by consulting the guidance outlined in IAS 38 "Intangible Assets" and exercises judgement in determining the qualifying costs. When unsure if the enhancement or modification costs relate to the development of the asset or are maintenance expenditure in nature, management treats the expenditure as if it were incurred in the research phase only in line with IAS 38 guidance.

Internally generated assets consist primarily of costs relating to intangible assets which provide economic benefit independent of other assets, and intangible assets that are utilised in the operation of property, plant and equipment. These intangible assets are required for certain tangible assets to operate as intended by management. Management assesses each material internally generated asset addition and considers whether it is integral to the successful operation of a related item of hardware, can be used across a number of applications and therefore whether the asset should be recognised as property, plant and equipment. If the asset could be used on other existing or future projects it will be recognised as an intangible asset. For example, should an internally generated asset, such as the software code to enhance the operation of existing CFC equipment, be expected to form the foundation or a substantial element of future software development, it has been recognised as an intangible asset.

Of the internally generated assets capitalised, 25.2% (2018: 25.0%) relates to asset additions within property, plant and equipment.

Estimation of Useful Life
The charge in respect of periodic amortisation is derived by estimating an asset's expected useful life and the expected residual value at the end of its life. Increasing an asset's expected life or its residual value would result in a reduced amortisation charge in the Consolidated Income Statement.

The useful life is determined by management at the time the software is acquired and brought into use and is regularly reviewed for appropriateness. For computer software licences, the useful life represents management's view of the expected period over which the Group will receive benefits from the software.

For unique software products developed and controlled by the Group, the life is based on historical experience with similar products as well as anticipation of future events which may impact their useful life, such as changes in technology.

Where the right to use land has been granted, the period over which the amortisation is charged is the lower of the estimated useful economic life and the lease expiry date.

Impairment of Non-Financial Assets (Including Tangible Assets (Note 3.3))
Those non-financial assets which do not have indefinite useful lives are subject to an annual amortisation or depreciation charge. These assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may exceed its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell, and its value in use. Management makes an assessment based on the current usage level and condition of the assets and assesses whether the asset will continue to stay in use for the remainder of its useful life. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units).

Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period. When an impairment loss is subsequently reversed, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised immediately as income.

Given the Group's current operating structure, the lowest level at which cash flows can reasonably be assessed is at group asset level. The Group prepares detailed forward projections which are constantly updated and refined. Based on these projections the Board does not consider that any further impairment of assets is required, other than that recognised in the Income Statement.

	Internally generated assets	**Other intangible assets**	**Total intangible assets**
	£m	**£m**	**£m**
Cost			
At 3 December 2017	160.3	27.9	188.2
Additions	-	6.8	6.8
Internal development costs capitalised	51.5	-	51.5
Disposals	(0.4)	-	(0.4)
At 2 December 2018	211.4	34.7	246.1
Additions	**-**	**13.6**	**13.6**
Internal development costs capitalised	**70.2**	**-**	**70.2**
Impairment of Andover CFC (see note 2.4)	**(3.3)**	**-**	**(3.3)**
At 1 December 2019	**278.3**	**48.3**	**326.6**
Accumulated amortisation			
At 3 December 2017	(68.8)	(7.0)	(75.8)
Charge for the period	(23.6)	(3.5)	(27.1)
Impairment	(0.4)	-	(0.4)
Disposals	0.4	-	0.4
At 2 December 2018	(92.4)	(10.5)	(102.9)
Charge for the period	**(32.6)**	**(4.7)**	**(37.3)**
Impairment	**(0.6)**	**(1.2)**	**(1.8)**
Impairment of Andover CFC (see note 2.4)	**1.2**	**-**	**1.2**
At 1 December 2019	**(124.4)**	**(16.4)**	**(140.8)**
Net book value			
At 2 December 2018	119.0	24.2	143.2
At 1 December 2019	**153.9**	**31.9**	**185.8**

Included within intangible assets is capital work-in-progress for internally generated assets of £17.7 million (2018: £10.9 million) and capital work-in-progress for other intangible assets of £8.3 million (2018: £2.9 million).

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

	52 weeks ended 1 December 2019	52 weeks ended 2 December 2018
	£m	£m
Cost	**14.4**	14.4
Accumulated amortisation	**(14.1)**	(13.8)

Net book value	**0.3**	0.6

From 2019 leased assets are presented as a separate line item on the Consolidated Balance Sheet (see note 3.4). Refer to note 1.3 for details about the changes in accounting policy.

3.3 Property, Plant and Equipment

	Land and buildings	Fixtures, fittings, plant and machinery	Motor vehicles	Total
	£m	£m	£m	£m
Cost				
At 3 December 2017	130.5	560.3	74.1	764.9
Additions	5.8	119.8	13.7	139.3
Internal development costs capitalised	-	17.2	-	17.2
Disposals	-	(0.3)	(5.3)	(5.6)
Transfer of non-current asset held for sale	(5.8)	-	-	(5.8)
At 2 December 2018	130.5	697.0	82.5	910.0
Adjustment for change in accounting policy (see note 1.3)	**(32.4)**	**(211.1)**	**(69.8)**	**(313.3)**
Additions	**0.9**	**140.4**	**1.0**	**142.3**
Internal development costs capitalised	**-**	**23.6**	**-**	**23.6**
Acquired on purchase of Jones Food Company	**0.6**	**4.8**	**-**	**5.4**
Impairment of Andover CFC (see note 2.4)	**(32.3)**	**(82.8)**	**-**	**(115.1)**
Disposals	**-**	**(2.6)**	**(2.7)**	**(5.3)**
At 1 December 2019	**67.3**	**569.3**	**11.0**	**647.6**
Accumulated depreciation				
At 3 December 2017	(25.2)	(237.9)	(33.6)	(296.7)
Charge for the period	(4.2)	(45.2)	(13.9)	(63.3)
Impairment	-	(0.5)	-	(0.5)
Disposals	-	0.3	5.3	5.6
Transfer of non-current asset held for sale	1.6	-	-	1.6
At 2 December 2018	(27.8)	(283.3)	(42.2)	(353.3)
Adjustment for change in accounting policy (see note 1.3)	**23.2**	**143.2**	**32.8**	**199.2**
Charge for the period	**(2.8)**	**(41.6)**	**(1.6)**	**(46.0)**
Impairment	**-**	**(0.6)**	**-**	**(0.6)**
Impairment of Andover CFC (see note 2.4)	**2.6**	**15.6**	**-**	**18.2**
Disposals	**-**	**0.8**	**2.7**	**3.5**
At 1 December 2019	**(4.8)**	**(165.9)**	**(8.3)**	**(179.0)**
Net book value				
At 2 December 2018	102.7	413.7	40.3	556.7
At 1 December 2019	**62.5**	**403.4**	**2.7**	**468.6**

Included within property, plant and equipment is capital work-in-progress for land and buildings of £0.1 million (2018: £0.1 million) and capital work-in-progress for fixtures, fittings, plant and machinery of £115.1 million (2018: £45.8 million).

The net book value of non-current assets held under finance leases is set out below:

	Land and buildings	Fixtures, fittings, plant and machinery	Motor vehicles	Total
	£m	£m	£m	£m
At 2 December 2018				
Cost	32.4	211.1	69.8	313.3
Accumulated depreciation and impairment	(23.2)	(143.2)	(32.8)	(199.2)
Net book value	9.2	67.9	37.0	114.1
At 1 December 2019				
Cost	-	-	-	-
Accumulated depreciation and impairment	-	-	-	-
Net book value	-	-	-	-

From 2019 leased assets are presented as a separate line item on the Consolidated Balance Sheet (see note 3.4). Refer to note 1.3 for details about the changes in accounting policy.

3.4 Right-of-Use Assets

Accounting Policies

Right-of-Use Assets

In the previous period, the Group only recognised lease assets and lease liabilities in relation to leases that were classified as "finance leases" under IAS 17 "Leases". The assets were presented in property, plant and equipment and the liabilities as part of the Group's borrowings. For adjustments recognised on adoption of IFRS 16 on 3 December 2018, please refer to note 1.3.

Right-of-use assets are measured at cost, which is made up of the initial measurement of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the asset at the end of the lease, less any lease incentives received.

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

The right-of-use assets are included in a separate line within non-current assets on the Consolidated Balance Sheet.

	Land and buildings	Fixtures, fittings, plant and machinery	Motor vehicles	Total
	£m	£m	£m	£m
Cost				
At 3 December 2017 and 2 December 2018	-	-	-	-
Reclassified from property, plant and equipment[1]	32.4	211.1	69.8	313.3
Recognised on adoption of IFRS 16	268.5	3.0	4.4	275.9
At 3 December 2018	300.9	214.1	74.2	589.2
Additions	**8.9**	-	**20.4**	**29.3**
Disposals	-	**(0.2)**	**(3.8)**	**(4.0)**
At 1 December 2019	**309.8**	**213.9**	**90.8**	**614.5**
Accumulated depreciation				
At 3 December 2017 and 2 December 2018	-	-	-	-
Reclassified from property, plant and equipment at 3 December 2018	(23.2)	(143.2)	(32.8)	(199.2)
Charge for the period	(19.4)	(15.6)	(15.4)	(50.4)
Disposals	-	0.2	3.7	3.9
At 1 December 2019	(42.6)	(158.6)	(44.5)	(245.7)
Net book value				
At 2 December 2018	-	-	-	-
At 1 December 2019	**267.2**	**55.3**	**46.3**	**368.8**

1. These figures are net of lease incentive liabilities of £11.3 million and prepaid lease payments of £0.9 million.

3.5 Non-Current Asset Held for Sale

Accounting Policies

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met, only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current Assets Held for Sale

The non-current asset held for sale of £4.2 million (2018: £4.2 million) represents the carrying value of a UK property that was previously used in the Group's distribution network that the Group is in the process of selling.

The completion of the sale has been delayed by circumstances beyond the Group's control but negotiations are well advanced and the Group remain committed to the sale which is expected to complete in the first quarter of 2020. Accordingly the asset has continued to be classified as held for sale. The proceeds of disposal are expected to exceed the book value and accordingly no gain or loss was recognised on the classification of the property as held for sale.

Section 4 - Capital Structure and Financing Costs

4.1 Borrowings

	Less Than One Year £m	Between One Year and Two Years £m	Between Two Years and Five Years £m	Over Five Years £m	Total £m
At 2 December 2018					
Senior Secured loans	-	-	-	244.3	244.3
Total borrowings	-	-	-	244.3	244.3
As at 1 December 2019					
Senior secured notes	-	-	**219.5**	-	**219.5**
Chattel mortgages	-	-	**0.2**	-	**0.2**
Total borrowings	**-**	-	**219.7**	**-**	**219.7**

The loans outstanding at 2 December 2018 can be analysed as follows:

Principal Amount £m	Inception	Security Held	Current Interest Rate	Instalment Frequency	Final Payment Due	Carrying Amount as at 2 December 2018 £m
250.0	June 2017	Collateral	4.0%	Biannual	June 2024	244.3

The loans outstanding at 1 December 2019 can be analysed as follows:

Principal Amount £m	Inception	Security Held	Current Interest Rate	Instalment Frequency	Final Payment Due	Carrying Amount as at 1 December 2019 £m
225.0	June 2017	Collateral	4.0%	Biannual	June 2024	219.5
0.3	January 2019	Collateral	8.8%	Monthly	January 2023	0.2

In the current period, the unsecured £100.0 million revolving facility expiring in 2022 has not been utilised.

Senior secured notes were issued in June 2017 raising £250.0 million; this is shown net of transaction fees. The senior secured notes are secured by charges over the issued share capital of the subsidiary undertakings that acted as guarantors for the notes. During the current period £25.0 million was repaid, incurring early repayment fees of £0.8 million.

The Group regularly reviews its financing arrangements. The revolving facility and the senior secured notes contain typical restrictions concerning dividend payments and additional debt and leases.

4.2 Lease Liabilities

	1 December 2019 £m	2 December 2018 £m
Lease liabilities due:		
Within one year	**50.1**	22.9
Between one and two years	**42.9**	26.7
Between two and five years	**90.1**	60.9

After five years	**205.4**	5.8
Lease liabilities	**388.5**	116.3

External obligations under lease liabilities are £320.4 million (2018: £41.8 million) excluding £64.0 million (2018: £74.5 million) payable to MHE JVCo, a joint venture company.

	1 December 2019 £m	2 December 2018 £m
Minimum lease payments due:		
Within one year	**54.8**	35.8
Between one and two years	**46.0**	30.6
Between two and five years	**93.1**	65.7
After five years	**205.4**	12.9
	399.3	145.0
Less: future finance charges	**(10.8)**	(28.7)
Present value of finance lease liabilities	**338.5**	116.3
Disclosed as:		
Current	**50.1**	22.9
Non-current	**338.4**	93.4
	388.5	116.3

The existing finance lease arrangements entered into by the Group contain no restrictions concerning dividends, additional debt and further leasing. Furthermore, no material leasing arrangements exist relating to contingent rent payable, renewal or purchase options and escalation clauses.

4.3 Analysis of Net Cash/(Debt) *

Net Cash/(Debt) *

	1 December 2019 £m	2 December 2018 £m
Current Assets		
Cash and cash equivalents	**750.6**	410.8
Current Liabilities		
Lease liabilities	**(50.1)**	(22.9)
Non-Current Liabilities		
Borrowings	**(219.7)**	(244.3)
Lease liabilities	**(338.4)**	(93.4)
	(558.1)	(337.7)
Total net cash/(debt) *	**142.4**	50.2

The net cash* position is £206.4 million (2018: £124.7 million net cash*), excluding lease liability obligations of £64.0 million (2018: £74.5 million) payable to MHE JVCo, a joint venture company. £5.3 million (2018: £3.7 million) of the Group's cash and cash equivalents is considered to be restricted and is not available to circulate within the Group on demand.

Reconciliation of Net Cash Flow to Movement in Net Cash/(Debt) *

	1 December 2019 £m	2 December 2018 £m
Net increase in cash and cash equivalents	**339.8**	260.8
Net decrease/ (increase) in debt and lease financing	**57.6**	31.0
Non-cash movements:		
- Assets acquired under lease	**(305.2)**	(13.6)
Movement in net cash/(debt) * in the period	**92.2**	278.2
Opening net debt*	**50.2**	(228.0)
Closing net cash/(debt) *	**142.4**	50.2

4.4 Finance Income and Costs

	52 weeks ended 1 December 2019	52 weeks ended 2 December 2018

	£m	£m
Interest on cash balances	**3.3**	2.2
Finance Income	**3.3**	2.2
Borrowing costs		
- Interest expense on lease liabilities	**(20.6)**	(6.5)
- Borrowings	**(10.3)**	(8.2)
Finance Costs	**(30.9)**	(14.7)
Net Finance Costs	**(27.6)**	(12.5)

4.5 Share Capital and Reserves

As at 1 December 2019, the number of ordinary shares available for issue under the Block Listing Facilities was 13,657,551 (2018: 10,014,711). These ordinary shares will only be issued and allotted when the shares under the relevant share incentive plan have vested or the share options under the Group's executive share ownership scheme and non-employee share options and Sharesave schemes have been exercised. They are therefore not included in the total number of ordinary shares outstanding below.

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

	Number of Ordinary Shares Million	Ordinary shares £m	Share premium £m
At 3 December 2017	630.7	12.6	261.3
Issues of ordinary shares	65.0	1.3	322.1
Allotted in respect of share option schemes	2.6	0.1	6.2
Reclassification between reserves	-	-	0.3
At 2 December 2018	698.3	14.0	589.9
Issue of ordinary shares	**10.0**	**0.2**	**113.0**
Allotted in respect of share option schemes	**0.9**	**-**	**2.4**
Reclassification between reserves	-	-	-
At 1 December 2019	**709.2**	**14.2**	**705.3**

1. Historic losses on the disposal of treasury shares of £2.9 million have been reclassified to retained earnings, and reflected in the share premium balances at 3 December 2017 and 2 December 2018.

Included in the total number of ordinary shares outstanding above are 10,850,516 (2018: 6,438,706) ordinary shares held by the Group's Employee Benefit Trust (see note 4.10(b)). The ordinary shares held by the trustee of the Group's Employee Benefit Trust pursuant to the JSOS are treated as treasury shares on the 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 (although the trustee may vote in respect of shares that have vested and remain in the trust). 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 basic loss per share calculation in note 2.10 as basic 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:

	Treasury shares reserve £m	Reverse acquisition reserve £m	Fair value reserve £m	Hedging reserve £m	Translation reserve £m
At 3 December 2017	(48.0)	(116.2)	-	0.2	0.5
Movement on derivative financial instruments	-	-	-	1.0	
Disposal of treasury shares	11.7	-	-	-	-
Transfer of shares to participants	27.8	-	-	-	-
Reclassification between reserves	(0.7)	-	-	-	-
Translation of foreign subsidiary	-	-	-	-	(0.3)
At 2 December 2018	(9.2)	(116.2)	-	1.2	0.2
IFRS9: impact of change in accounting policy	-	-	2.0	-	-
Adjusted balance as at 2 December 2018	(9.2)	(116.2)	2.0	1.2	0.2

Issue of ordinary shares	**(111.1)**	-	-	-	-
Disposal of treasury shares on exercise by participants	**0.5**	-	-	-	-
Disposal of unallocated treasury shares	**5.7**	-	-	-	-
Transfer of treasury shares to participants	**0.8**	-	-	-	-
Reclassification between reserves	**(0.3)**	-	-	-	-
Movement on derivative financial instruments	-	-	-	**(1.7)**	-
Translation of foreign subsidiary	-	-	-	-	**(0.6)**
Gain on equity investments designated as FVTOCI	-	-	**2.8**	-	-
Reclassification of equity of Jones Food Company	-	-	**0.1**	-	-
At 1 December 2019	**(113.6)**	**(116.2)**	**4.9**	**(0.5)**	**(0.4)**

(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. Treasury shares cease to be accounted for as such when they are sold outside the Group or the interest is transferred in full to the participant pursuant to the terms of the JSOS. Participant interests in unexercised shares held by participants are not included in the calculation of treasury shares.

(b) Other Reserves

The fair value reserve comprises gains and losses on movements in the Group's cash flow hedges, which consist of commodity swaps and foreign currency hedges.

Section 5 - Other Notes

5.1 Commitments

Capital Commitments

Contracts placed for future capital expenditure but not provided for in the financial statements are as follows:

	1 December 2019	2 December 2018
	£m	£m
Land and buildings	**1.5**	0.1
Property, plant and equipment	**92.1**	69.6
Total capital expenditure committed at the end of the period	**93.6**	69.7

Of the total capital expenditure committed at the period end, £72.5 million (2018: £0.1 million) relates to new CFCs, £9.5 million (2018: £35.3 million) to existing CFCs, £3.3 million (2018: £7.9 million) to fleet costs and £1.3 (2018: £nil) to technology projects.

Operating Lease Commitments

The Group leases a number of offices, facilities and items of equipment under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights.

From 3 December 2018, the Group has recognised right-of-use assets for these leases, except for short-term and low-value leases which will remain as operating leases. The value of the short-term and low-value leases is immaterial for disclosure purposes (see note 1.3 and note 4.2 for further information).

At 1 December 2019 the ageing profile of future aggregate minimum lease payments under non-cancellable operating leases is as follows:

	1 December 2019	2 December 2018
	£m	£m
Due within one year	0.2	37.1
Due after one year but less than five	-	108.9
Due after five years	-	262.3
Total Commitment	0.2	408.3

5.2 Related Party Transactions

Key Management Personnel

Only the Executive and Non-Executive Directors are recognised as being key management personnel. It is the Board which has responsibility for planning, directing and controlling the activities of the Group. The key management compensation is as follows:

	1 December 2019	2 December 2018
	£m	£m
Salaries and other short-term employee benefits	**4.7**	4.2
Share-based payments	**14.7**	6.1
	19.4	10.3

Further information can be found in the Annual Report and Accounts, which we anticipate will be available on 11 February 2020.

Other related party transactions with key management personnel made during the period related to the purchase of professional services amounted to £5,000 (2018: £5,250). All transactions were on an arm's length basis and no period end balances arose as a result of these transactions. At the end of the period, there was £nil (2018: £nil) owed by key management personnel to the Group. There were no other material transactions or balances between the Group and its key management personnel or members of their close family.

Investment

The following transactions were carried out with Paneltex Limited, a company incorporated in the UK in which the Group holds a 25.0% interest. Further information on the Group's relationship with Paneltex Limited is provided on note 3.5 in the Annual Report and Accounts.

	52 weeks ended 1 December 2019	52 weeks ended 2 December 2018
	£m	£m
Purchase of goods		
- Plant and machinery	**0.7**	-
- Consumables	**0.6**	0.6

Indirect transactions, consisting of the purchase of plant and machinery through some of the Group's leasing counterparties, were carried out with Paneltex Limited to the value of £9.1 million (2018: £8.2 million). At the period end, the Group owed Paneltex £23,000 (2018: £37,000).

Joint Venture

The following transactions were carried out with MHE JV Co, a joint venture company, incorporated in the UK, in which the Group holds an interest:

	1 December 2019	2 December 2018
	£m	£m
Dividend received from MHE JVCo	**15.6**	-
Reimbursement/(settlement) of supplier invoices paid on behalf of MHE JVCo	**4.2**	(0.6)
Capital element of lease liability instalments paid to MHE JVCo	**24.6**	2.8
Capital element of lease liability instalments due to MHE JVCo	**1.2**	12.9
Interest element of lease liability instalments accrued or paid to MHE JVCo	**3.7**	4.4

During the period the Group incurred lease instalments (including interest) of £29.6 million (2018: £20.1 million) to MHE JVCo.

Of the £29.6 million, £9.0 million (2018: £9.5 million) was recovered directly from Morrisons in the form of other income and a further £15.6 million (2018: £nil) was received from MHE JVCo by way of a dividend. Of the remaining £4.9 million, £1.2 million (2018: £12.9 million) represents the capital element of the lease liability instalments due to MHE JVCo and £3.7 million (2018: £4.4 million) of the interest incurred on the lease liabilities owing to MHE JVCo.

Included within trade and other receivables is a balance of £0.3 million (2018: £3.9 million) owed by MHE JVCo. £0.3 million (2018: £0.6 million) of this relates to a lease liability accrual which is included within other receivables. £nil (2018: £3.3 million) relates to capital recharges.

Included within trade and other payables is a balance of £1.8 million (2018: £20.2 million) owed to MHE JVCo.

Included within lease liabilities is a balance of £64.0 million (2018: £74.5 million) owed to MHE JVCo.

No other transactions that require disclosure under IAS 24 "Related Party Disclosures" have occurred during the current financial period.

5.3 Post Balance Sheet Events

Bond Issue

In December Ocado Group plc completed an offering of £600 million of guaranteed senior unsecured convertible bonds due in 2025.

The net proceeds from the issue of the bonds will be used to fund capital expenditure relating to Ocado Solutions' commitments, and general corporate projects. The offering has enabled the Group to diversify its funding sources and capitalise on attractive issuance conditions.

The bonds will be issued by Ocado Group and initially guaranteed by Ocado Operating Limited, Ocado Innovation Limited, Ocado Central Services Limited, Ocado Solutions Limited and Ocado Holdings Limited.

Alternative Performance Measures

The Group assesses its performance using a variety of alternative performance measures which are not defined under IFRS and are therefore termed "non-GAAP" measures. These measures provide additional useful information on the underlying trends, performance and position of the Group. The non-GAAP measures we used are:

- Exceptional Items;
- Segmental Revenue;
- Segmental Gross Profit;
- Segmental Other Income;
- Segmental Administrative Costs and Distribution Costs;
- EBITDA;
- Segmental EBITDA;
- External Gross Debt; and
- Net Cash

Reconciliation of these non-GAAP measures to the nearest measures prepared in accordance with IFRS are presented below. The alternative performance measures used may not be directly comparable with similarly titled measures used by other companies.

Exceptional Items

The Group's Consolidated Income Statement separately identifies trading results before exceptional items. The Directors believe that presentation of the Group's results in this way is relevant to an understanding of the Group's financial performance. This presentation is consistent with the way that financial performance is measured by management and reported to the Board and assists in providing a meaningful analysis of the trading results of the Group. This also facilitates comparison with prior periods to assess trends in financial performance more readily.

The Group applies judgement in identifying significant non-recurring items of income and expense that are recognised as exceptional to help provide an indication of the Group's underlying business. In determining whether an event or transaction is exceptional in nature, management considers quantitative as well as qualitative factors such as the frequency or predictability of occurrence.

Examples of items that the Group considers exceptional include, but are not limited to, material costs relating to the opening of a new warehouse, corporate reorganisations, material litigation, and any material costs, outside of the normal course of business as determined by management.

The Group has adopted a three-column approach to the Consolidated Income Statement to aid clarity and allow users of the financial statements to more easily understand the performance of the underlying business and the impact of one-off events.
Exceptional items are disclosed in note 2.3 to the consolidated financial statements.

Segmental Revenue
Segmental revenue is a measure of reported revenue for the Group's Retail, UK Solutions and International Solutions segments. A reconciliation of revenue for the segments to revenue for the Group can be found in note 2.1 to the consolidated financial statements.

Segmental Gross Profit
Segmental gross profit is a measure which seeks to reflect the profitability of segments in relation to their revenues earned.
A reconciliation of reported gross profit, the most directly comparable IFRS measures, with the segmental gross profit, is set out below:

	2019 £m	2018 £m
Retail gross profit	**466.4**	423.6
UK Solutions gross profit	**583.2**	541.1
International Solutions gross profit	**0.4**	0.5
Other gross profit	**0.9**	2.1
Group Eliminations gross profit	**(453.6)**	(419.8)
Reported gross profit	**597.3**	547.5

Segmental Other Income
Segmental other income is a measure which seeks to reflect segmental income which is not generated through the primary trading activities of the segments (for example, volume-rebates from suppliers in the Retail segment).
A reconciliation of reported other income, the most directly comparable IFRS measures, with the segmental other income, is set out below:

	2019 £m	2018 £m
Retail other income	**65.6**	59.8
UK Solutions other income	**3.0**	2.6
International Solutions other income	**-**	-
Other other income	**15.4**	9.5
Group Eliminations other income	**(0.1)**	-
Reported other income	**83.9**	71.9

Segmental Administrative Costs and Distribution Costs
Segmental distribution and administrative costs are measures which seek to reflect the performance of the Group's segments in relation to the long-term sustainable growth of the Group. These measures exclude

certain costs that are not allocated to a segment: depreciation, amortisation, impairment and other central costs.
A reconciliation of reported distribution and administrative costs, the most directly comparable IFRS measures, to the segmental distribution and administrative costs, is set out below:

	2019 £m	2018 £m
Retail distribution and administrative costs	**497.0**	453.3
UK Solutions distribution and administrative costs	**501.3**	476.2
International Solutions distribution and administrative costs	**62.5**	28.9
Other distribution and administrative costs	**31.5**	22.5
Group Eliminations distribution and administrative costs	**(453.7)**	(419.8)
Depreciation, amortisation, impairment and other central costs	**136.1**	91.3
	774.7	652.4

	2019 £m	2018 £m
Reported distribution costs	**564.8**	485.4
Reported administrative expenses	**209.9**	167.0
	774.7	652.4

EBITDA
In addition to measuring its financial performance based on operating profit, the Group also measures performance based on EBITDA. EBITDA is defined as the Group earnings before depreciation, amortisation, impairment, net finance expense, taxation and exceptional items. EBITDA is a common measure used by investors and analysts to evaluate the operating financial performance of companies.
The Group considers EBITDA to be a useful measure of its operating performance because it approximates the underlying operating cash flow by eliminating depreciation and amortisation. EBITDA is not a direct measure of liquidity, which is shown by the cash flow statement, and needs to be considered in the context of the Group's financial commitments.
A reconciliation of operating profit to EBITDA can be found on the face of the Consolidated Income Statement on page 14.

Segmental EBITDA
The financial performance of the Group's segments is measured based on EBITDA, as reported internally.
A reconciliation of EBITDA for the segments to EBITDA for the Group can be found in note 2.1 to the consolidated financial statements.

External Gross Debt
External gross debt consists of loans and other borrowings (both current and non-current), less lease liabilities payable to joint venture interests of the Group.
External gross debt is a measure of the Group's indebtedness to third parties which are not considered a related party to the Group.
A reconciliation of external gross debt to gross debt can be found below:

	2019 £m	2018 £m
External gross debt	**544.2**	286.1
Lease liabilities relating to joint ventures	**64.0**	74.5
Gross debt	**608.2**	360.6

Net Cash
Net cash consists of cash and cash equivalents less loans and other borrowings (both current and non-current). Loans and other borrowings are measured as the net proceeds raised, adjusted to amortise any discount over the term of the debt.
Net cash is a measure of the Group's net indebtedness that provides an indicator of the overall balance sheet strength. It is also a single measure that can be used to assess the combined impact of the Group's cash position and its indebtedness. The use of the term "net cash" does not necessarily mean that the cash included in the net cash calculation is available to settle the liabilities included in this measure.
Net cash is considered to be an alternative performance measure as it is not defined in IFRS. The most directly comparable IFRS measure is the aggregate of loans and other borrowings (current and non-current) and cash and cash equivalents. A reconciliation of these measures to net cash can be found in note 4.3 to the consolidated financial statements.

Announcement information

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