Half Yearly Report

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Ocado Group PLC
05 July 2017

OCADO GROUP PLC

Half year results for the 26 weeks ended 28 May 2017

Ocado delivers further growth in customer numbers, orders and revenues
Continued investment in platform for licencing to retailers

5 July 2017

Financial and statutory highlights

	26 weeks ended 28 May 2017 £million	24 weeks ended 15 May 2016 £million	26 vs 24 weeks	26 weeks ended 29 May 2016* £million	26 vs 26 weeks*
Revenue (Retail) [1]	659.6	540.1	22.1%	586.2	12.5%
Revenue (Group)[2]	713.8	584.2	22.2%	634.4	12.5%
EBITDA[3]	45.2	40.4	12.0%	44.0	2.7%
Profit before tax	7.7	8.5	(9.4%)	9.4	(18.1%)
Cash and cash equivalents	37.8	52.7			
Statutory net debt	210.5	136.2			
External net debt[4]	102.4	14.6			

* To aid comparability we have included an illustration of the key 2016 performance measures for the first 26 weeks to enable a better view of the underlying growth and performance.

Continued strong revenue growth and further investments

- Retail revenue increased 12.5%[5] to £659.6 million, gaining market share, due to strength of the offer to the customer
- EBITDA up 2.7%[5] to £45.2 million after gross margin increase, driven by a reduction in unfunded promotional activity, and improved operating efficiencies, offset by cost inflation, impact of Andover CFC opening, and further investment in our platform
- Profit before tax of £7.7 million decreased by £1.7 million[5], resulting from higher depreciation from Andover CFC opening
- Net debt up to £102.4 million due to significant capital investment in innovation and capacity
- New finance facility in place to support expansion plans (post period end)

Strong growth in customers and orders with brand enhancing service levels

- Order volumes grew by 15.6% to an average of 260,000 orders per week (1H 2016: 225,000), with the highest number of orders delivered in a week reaching 280,000
- Average Ocado.com basket size value declined by 1.4% to £108.45 (1H 2016: £109.94) impacted by the continued uptake of Ocado Smart Pass and reduced multi-buy promotions
- Active customers[6] increased 12.7%[5] year-on-year to over 600,000
- Maintained superior customer service levels with on time delivery at 95.0% (1H 2016: 94.9%) and order accuracy at 98.9% (1H 2016: 99.1%)

Focus on technology and innovation to deliver more capital and operationally efficient solutions

- Delivery efficiency improved to 180 DPV (1H 2016: 175 DPV), due to enhancements to routing system and improved customer density
- Mature CFC[7] operational productivity improved to 164 UPH (1H 2016: 159 UPH)
- Mature CFC[7] throughput up over 10% on last year with minimal capital expenditure
- Andover CFC scaling in line with expectations

Progress in utilising our proprietary knowledge through licensing

- Announced first international partnership with a European retailer post period end using Ocado Smart Platform (OSP)
- Continued to enable growth of Morrisons' online grocery business
- New store-pick solution now in live testing with Morrisons
- Further conversations continuing with multiple retailers to adopt our solutions using OSP
- Signed partnership agreement with Dobbies to launch their online garden centre business in 2018

Tim Steiner, Chief Executive Officer of Ocado, said:

"I am pleased to announce another period of consistent customer, revenue and order growth, as well as improved operating efficiencies within our UK retail business. In addition, I am delighted to have announced our first OSP agreement with a European retailer.

"After several years of price deflation in the U.K., we have seen this begin to ease in the period and, when combined with our increasing scale and operational efficiencies, this trend will support the continued profitable growth of our retail business.

"As the channel shift to online advances we continue to gain share in a competitive U.K. market. We expect the trend for grocery shopping online to continue as consumers become more tech savvy and gain confidence in the online services available. Ocado will be a natural beneficiary of that trend thanks to its industry-leading customer offer. We continue to build new facilities in the U.K. in order to meet the increasing demand we see.

"Meanwhile, we have invested further in our platform and innovation to advance our technological leadership, as we continue to grow our technology and engineering teams. With the scaling of our Andover CFC and the store pick capabilities we have developed for Morrisons, we are able to better demonstrate the quality of our platform to current and future international customers.

"Grocery retailing is changing and we are ideally positioned to enable other retailers to achieve their online aspirations. We expect our recently announced international partnership to be the first of many and look forward to helping more retailers provide a high quality service to their customers in this rapidly evolving market."

Results presentation

A results presentation will be held for investors and analysts at 9.30 am today at the offices of Goldman Sachs, Peterborough Court, 133 Fleet Street, London EC4A 2BE. Presentation material will be available online at http://www.ocadogroup.com/investors/reports-and-presentations/2017.aspx.

Contacts

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Notes

1. Revenue (Retail) is revenue excluding Morrisons recharges and fees.
2. Revenue is online sales (net of returns) including charges for delivery but excluding relevant vouchers/offers and VAT. The recharge of costs to Morrisons and fees charged to Morrisons are also included in revenue.
3. EBITDA is an alternative performance measure which we define as earnings before net finance cost, taxation, depreciation, amortisation, impairment and exceptional items. See note 5 of the condensed financial statements.

4. External net debt is statutory net debt less amounts owing to MHE JVCo of £108.1 million (1H 2016: £121.6 million).
5. Ocado now has a 5-4-4 week reporting model, with each quarter representing a 13 week reporting period. Prior period comparative numbers have been provided in some instances to help illustrate like-for-like trends. 1H 2016 comparisons refer to the 24 week period ending 15 May 2016.
6. Customers are classified as active if they have shopped on Ocado.com within the previous 12 weeks.
7. A CFC is considered mature if it has been open for 12 months by the start of the half year reporting period.

Financial Calendar

Our financial reporting calendar for the remainder of the year will be a Q3 Trading Statement on 19 September 2017, a Q4 Trading Statement on 14 December 2017 and a Full Year Results Statement on 6 February 2018.

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 Executive Officer's review

We are pleased to report another period of progress with steady growth in our UK retail business, the signing of our first agreement with an international partner and expansion of our UK capacity, while continuing to invest in our platform to facilitate future growth.

While we have started to see the return of modest inflation in selling prices after several periods of sustained price deflation, the market has remained competitive at a time of continuing cost inflation. Notwithstanding, our results demonstrate the superior nature of our operating model which has enabled us to preserve our retail margins and continue to invest in our platform for our own retail business as well as Morrisons and international partners.

Progress against our strategic objectives--

We continued to deliver on our strategic objectives to drive growth, maximise efficiency and utilise our proprietary knowledge. Our continued strong order growth of over 15% demonstrates our progress in a competitive market, with our active customer base increasing to over 600,000. We believe that as the channel shift to online continues, we are ideally positioned to benefit and further capture market share.

To enable us to achieve our strategic objectives we focus on five complementary actions. This helps us drive long term shareholder value and provide a best in class service to our retail and platform customers. These actions are to:

- constantly improve our proposition to customers;
- strengthen our brands;
- develop ever more capital and operationally efficient infrastructure solutions;
- enhance our end-to-end technology capabilities; and
- enable our current and future partners' online businesses.

Constantly improve our proposition to customers

Within our retail business we aim to continually improve and evolve our proposition to reflect changing consumer preferences and habits. Critical to this is our focus on a high quality service and user experience, a diverse range of products and competitive prices.

We believe that consumers are attracted to the online channel when they are offered a superior proposition compared to store based alternatives. We aim to provide this by ensuring customers can shop anywhere, anytime, across devices and between family members in an intuitive and swift manner from check in to check out. We constantly review and analyse the shopping experience to ensure our customers remain loyal, encourage them to transfer more of their weekly shop online, and to share their positive experience of Ocado with their friends and family, and have recently introduced new features such as Apple Pay and three day slot viewing to further enhance and provide flexibility to the customer experience.

Accuracy and punctuality are crucial elements to providing a compelling service to our customers. We maintained what we believe to be market leading levels of order accuracy of 98.9% (1H 2016: 99.1%) and orders delivered on time or early of 95.0% (1H 2016: 94.9%) in a one hour time slot.

The extensive range of SKUs we offer to customers is important to enable them to select products that fit their preferences. Our customers can buy Ocado and Waitrose own label products, their favourite brands, general merchandise items and specialist and international product ranges not typically found in supermarkets; all in one shop. We also continued to expand our range of 'shop in shops', now hosting over 60 different categories, including the recently launched 'Harvey Nichols' shop.

To support this diversity of products we ran our third 'Britain's Next Top Supplier' competition, where we invited entrants to pitch their products to the Ocado team. This year's winner was Garlic Farm - a garlic inspired supplier, which produces notable products such as garlic vodka and garlic sea salt which will now be stocked at Ocado and receive marketing support to establish its listing. This scheme helps us to support and access niche and specialist suppliers that may not otherwise receive shelf space at traditional supermarkets. Our previous winner, Hiver Beer, has since seen sales grow five times faster than the rest of Ocado's beer category in 2016.

Despite the intense price competition in the industry, in the period around two thirds of our customers' baskets were already cheaper at Ocado when checking our Low Price Promise ("LPP") basket matching scheme against the market leader. We believe our price following strategy enables us to remain price competitive, and LPP demonstrates this to our customers.

We continue to see an uptake in our bundled benefit scheme, Ocado Smart Pass, with well over 50% of sales now coming from Smart Pass customers. The scheme provides many benefits, including free delivery, samples and gifting and at least 10% off a range of leading brands. Membership helps drive loyalty and consumer spend as the 'sunk cost' of the scheme encourages customers to maximise the opportunity to use online shopping as part of their weekly routine.

Our General Merchandise revenues have grown strongly with year-on-year growth of 40% against the comparable period, enabled by the continued range extension within both our Ocado.com general merchandise categories and our destination sites, principally Fetch and Fabled, our speciality pet and premium beauty stores.

As we improve our retail proposition, this enhances the key features we can apply to the technology embedded in our platform, thus benefiting our existing and future corporate customers.

Strengthen brands

We continue to strengthen the value and awareness of our retail brands Ocado, Fetch, Sizzle and Fabled through targeted marketing activity.

In line with the grocery market, we reduced the amount of multi-buy promotions, many of which had been for our Ocado own label product, and as a result sales of this range were down 1% over the period.

Our active customer base grew by 11.3% year-on-year to over 600,000, with more focus being placed on retention of newer customers and reactivation of lapsed customers through targeted marketing and voucher activity rather than absolute growth in new customers.

While we saw the return of some selling price inflation in the period following a sustained period of price deflation, customers' average Ocado.com basket value still declined by 1.4% to £108.45 (1H 2016: £109.94). This resulted from a modest reduction in average items in basket, due to the continued success of migrating more customers to Smart Pass, increased shopping frequency and reduced multi-buy promotions.

Develop ever more capital and operationally efficient infrastructure solutions

Both of our mature CFCs in Hatfield and Dordon continued to operate at what we believe are industry leading levels of operational efficiency and accuracy. We typically measure efficiency by using the units per labour hour ("UPH") metric, which in our mature CFCs improved 3.2% over the period to 164 UPH (1H 2016: 159 UPH).

We saw robust growth in our order volumes of 15.6% to an average of 260,000 orders per week ("OPW") (1H 2016: 225,000 OPW), with the highest number of orders delivered in a week exceeding 280,000 during the period. This growth has been enabled by increasing the throughput of our mature CFCs with minimal capital expenditure, and the scaling of our latest CFC in Andover, Hampshire.

Our Andover CFC commenced operations at the end of last year and we have made good progress in scaling operations in line with our expectations. As we continue to add more capacity into the CFC we are improving the resiliency and reliability of our software and physical solutions, which will benefit both our own retail business and that of our platform partners going forward.

Developing and taking live the proprietary physical fulfilment solution and software systems within our Andover CFC was our biggest challenge to date, but also our biggest technological step forward, and we are pleased with the progress made in scaling the site.

We also continued to progress the fit out and development of our fourth CFC in Erith, South East London, which is scheduled to open in 2018. Once fully operational this site will increase our potential capacity by 200,000 OPW, supporting the growth of both ours and Morrison's online businesses.

Our average deliveries per van per week ("DPV") improved 2.7% over the period to 180 (1H 2016: 175). This is a result of several factors: improved drop density as we grew our customer base, ongoing developments to our routing software allowing the most effective routes to be planned and taken, and other operational improvements in route planning, including an increase in Sunday deliveries.

Enhance our end-to-end technology capabilities

Our proprietary IP, knowledge and ongoing technology are central to our business and competitive edge. We strive to evolve and innovate ahead of the market to provide both our retail and platform customers with a market leading proposition with attractive economics. We continue to protect our intellectual property, and have filed patent applications covering over 50 different innovations to date, primarily relating to our proprietary physical fulfilment solution.

To support this ongoing evolution we continued to grow our technology team, and currently have approaching 1,000 software engineers in our five technology hubs across Europe. Our technology team is responsible for improving the customer experience, particularly developments to the interfaces to support our businesses and those of our current and future partners, replatforming to improve speed of systems development and to enable international expansion, and other projects to drive efficiency in our operations. In addition, we have a significant engineering team of over 200 qualified staff working on enhancements and value engineering of our physical solutions.

Enable current and future partners' online businesses

Central to our retail business is our proprietary technology and know-how. Through our solutions business we aim to create significant value by commercialising these capabilities to enable other retailers to launch or improve their online propositions. Innovations and improvements to our own retail business also benefit Ocado Smart Platform, enhancing the capabilities for our current and future partners.

Since launching our first commercial partnership with Morrisons.com in 2014, we have seen their sales grow significantly highlighting the power of our platform proposition and technology to retail customers. While Morrisons.com is now close to reaching its original agreed capacity, it signed an agreement in the previous period to take capacity in Erith CFC. In addition, we are currently expanding their offer with a general merchandise range sourced and fulfilled by Ocado, and are in final testing of a store picking software solution to also enable Morrisons to service their 'harder to reach' catchment areas. The store pick functionality also adds flexibility to our OSP solution, offering retailers a quick route to market and flexible fulfilment option to service online customers, which can be seamlessly combined (either immediately or later) with our CFC fulfilment solution.

Within the period we signed a general merchandise partnership with Dobbies, one of the U.K.'s biggest garden centres to help launch their online business. We believe the partnership is a testament to our technological and logistical experience in online shopping and illustrates how transferable our knowledge can be across retail segments.

Shortly after the period end, we announced our first international partner for our solutions business using Ocado Smart Platform. Under this agreement the partner will have access to our full software platform, know-how and support services required to create an efficient online grocery business. The partner will initially operate from a manual warehouse, with the option to progress to a full automation solution at a later date. This agreement represents a significant step in the evolution of our business and delivery of our strategy, demonstrating the flexibility of our solutions, and we are confident that this will be the first of many successful partnerships going forward.

We continue to progress conversations with multiple retailers internationally to use the Ocado Smart Platform and believe that recent industry developments such as the announced acquisition of Whole Foods by Amazon will be a positive catalyst in advancing these discussions.

People and Corporate Responsibility initiatives

With a net addition of 1,400 new employees year-on-year we closed the period with close to 12,300 people. We continue to grow and develop our talent pool to support the robust growth of both Morrisons.com and our own retail businesses, as well as our solutions business. This year we reviewed and improved our Recruitment and Performance management processes to further enable the growth of our business and development of our people and opened our new head office, which brings together our corporate functions under one roof and helps drive collaboration. We will continue expanding our talent pool in the remainder of 2017, including the addition of a further 150 software engineers and IT specialists in the UK and across Europe.

Our popular Code for Life programme, teaching children coding skills with our free resource "Rapid Router", now has more than 97,000 users at more schools both here in the UK and overseas.

Our Donate Food with Ocado scheme continues to be popular with customers and allows us to match fund donations made with groceries. Customers have donated more than £422,000 to the scheme to date. In November 2015, we began working with 'The Real Junk Food Project' and believe we are the first UK retailer to reduce wastage by sending edible food from customer-cancelled orders (including fresh food with long sell by dates) straight to charities to use. One of our other food bank partners, Fareshare, has within only 9 months donated 100,000 meals from cancelled customer orders, and we continue to support this and other food banks, redirecting food that would otherwise be wasted.

The Ocado Foundation has purchased and donated five refrigerated vans to food bank charities local to our CFCs. The vans have been purchased with the funds generated by the 5p bag tax. The introduction of refrigerated vans means these food banks are now able to distribute fresh food, rather than being limited solely to tinned and non-perishable produce, which is often what gets donated by customers in collection bins.

Outlook and financing

We saw retail revenue growth of 12.5% over the first half of the year, representing another robust period of growth. We expect to continue to grow ahead of the online grocery market as more people convert to shopping online for groceries, and believe we have a superior customer proposition which will enable us to capture market share.

As the channel shift to online continues and we see further improvements in technology-enabling online propositions, we anticipate that retailers will sharpen their focus on their online strategies. From 17 years of ongoing development we believe we have the best in class solution to enable these retailers to leapfrog competition and provide a compelling and economically viable online proposition to their customers. We remain confident in our ability to sign multiple platform partnerships in the medium term.

Capital expenditure in 2017 is expected to be approximately £175 million, encompassing expenditure for Andover CFC and Erith CFC, and the increased costs of further developing our infrastructure and technology solutions. Following a successful refinancing shortly after the end of the period, involving a £250 million bond issuance and £100 million revolving credit facility ("RCF"), we now have over £250 million of cash and available undrawn credit facilities in excess of our operating cash requirement to support our future growth.

Chief Financial Officer's review

For the period, we maintained our double digit revenue growth in what has remained a competitive environment. At group level, we continued our robust growth driven by our retail business with the balance coming from our agreement with Morrisons.

Growth in retail revenue was driven by further improvements in the number of active customers in the period and higher order frequency. Profitability in the period was adversely impacted by the continuing inflationary pressure, the higher costs associated with the opening of Andover CFC, our continued investment in a number of strategic initiatives to aid the future growth of the business and additional depreciation. This was offset in part by more efficient operational fulfilment mainly at Dordon CFC and an improvement in average deliveries per van per week.

For comparability purposes the financial statements below are based on the 26 weeks ended 28 May 2017 ("1H 2017") and 24 weeks ended 15 May 2016 ("1H 2016"), unless otherwise stated. This is because in FY 2016 Ocado decided for financial years from FY 2017 onwards to move from a financial calendar comprising 13 four weekly accounting periods to a financial calendar of 12 accounting periods where each quarter comprises three periods of 5 weeks, 4 weeks and 4 weeks. As a result, an additional two weeks of trading activity is included in 1H 2017 and is reflected in the variances unless otherwise stated. This statement also includes certain financial information relating to our Key Performance Indicators which is also on this basis.

	1H 2017 (26 weeks) £m	1H 2016 (24 weeks) £m	Variance
Revenue [1]	713.8	584.2	22.2%

Gross profit	247.8	199.4	24.3%
Other income	26.3	22.7	15.9%
EBITDA[2]	**45.2**	**40.4**	**12.0%**
Depreciation, amortisation and impairment	33.2	27.6	20.3%
Operating profit before share of result from joint venture [2]	11.2	11.8	(5.1)%
Net Finance costs	4.2	4.3	(2.3)%
Share of results from joint venture	0.8	1.0	(20.0)%
Profit before tax	**7.7**	**8.5**	**(9.4)%**

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 Morrisons and fees charged to Morrisons are also included in revenue
2. EBITDA is stated before the impact of exceptional items

Revenue

	1H 2017 (26 weeks) £m	1H 2016 (24 weeks) £m	Variance
Retail	659.6	540.1	22.1%
Morrisons recharges	44.2	35.2	25.6%
Morrisons fees	10.0	8.9	12.4%
Total revenue	**713.8**	**584.2**	**22.2%**

Revenue grew by over 22.2% to £713.8 million versus 1H 2016 of £584.2 million. Revenue from retail activities was £659.6 million, an increase of 22.1%.

Retail revenue growth was driven by growing demand with total average orders per week of 260,000 up from 225,000 in 1H 2016. The average Ocado.com order size was down 1.4% from £109.94 in 1H 2016 to £108.45 in 1H 2017. This was primarily due to continued reduction in the number of items per basket due to the increased frequency of shop from our loyal customers base and reduced multi buy promotional activity.

The Morrisons agreement contributed £54.2 million to revenue, up from £44.1 million in 1H 2016. This comprised annual fees for services, technology support, research and development, management fees and a recharge of relevant operational variable and fixed costs.

Gross profit

	1H 2017 (26 weeks) £m	1H 2016 (24 weeks) £m	Variance
Retail	193.6	155.3	24.7%
Morrisons recharges	44.2	35.2	25.6%
Morrisons fees	10.0	8.9	12.4%
Total gross profit	**247.8**	**199.4**	**24.3%**

Gross profit was up 24.3% to £247.8 million, compared to 1H 2016 of £199.4 million. Gross margin was 34.7% of revenue (1H 2016: 34.1%), ahead of 1H 2016 principally due to the contribution from Retail gross profit and additional gross profit attributable to the Morrisons arrangement in the period, reflecting the continued growth in the Morrisons.com business. Retail gross profit increased to 29.4% of retail revenue (1H 2016: 28.8%) as a result of reduced unfunded promotional activity, increases in selling price offset by the increase in cost of goods.

Other income increased by 15.9% to £26.3 million (1H 2016: £22.7 million) with supplier income increasing to £20.6 million (1H 2016: £15.3 million) equivalent to 3.1% of retail revenue (1H 2016: 2.8%). Other income also included £4.5 million (1H 2016: £5.6 million) arising from the leasing arrangements with Morrisons for MHE assets and £1.2 million (1H 2016: £1.1 million) of rental income relating to the lease of Dordon CFC. This income, for the MHE assets, is generated from charging MHE lease costs to Morrisons and equates to the additional depreciation and lease interest costs that we incur for the share of the MHE assets effectively owned by Morrisons.

Operating profit

Operating profit before the share of result from joint venture and exceptional items for the period was £11.2 million, compared with £11.8 million in 1H 2016.

Distribution costs and administrative expenses include costs for the Ocado and Morrisons fulfilment and delivery operations, as well as head office costs. The costs directly relating to the Morrisons operations are recharged and included in revenue. Total distribution costs and administrative expenses including costs recharged to Morrisons grew by 25.0% year-on-year. Excluding Morrisons, costs grew by 24.5% year-on-year.

	1H 2017 (26 weeks) £m	1H 2016 (24 weeks) £m	Variance
Distribution costs [1,2]	142.8	114.1	25.2%
Administrative expenses [1, 2]	42.6	33.4	27.5%
Costs recharged to Morrisons [3]	44.3	35.2	25.9%
Depreciation and amortisation [4]	33.2	27.6	20.3%
Total distribution costs and administrative expenses	**262.9**	**210.3**	**25.0%**

1. Excludes chargeable Morrisons costs, depreciation, and amortisation and impairment charges
2. 1H 2016 include a re-categorisation of £2.6 million of cost from administrative expenses to distribution costs
3. Morrisons costs include both distribution and administrative expenses
4. Included within depreciation and amortisation for 1H 2017 is £0.2 million (1H 2016: £0.1 million) of impairment charges

At £142.8 million, distribution costs increased by 25.2% compared to 1H 2016. The increase in underlying distribution costs was principally due to the increased number of employees in the CFC and delivery operations and increased vehicle operating costs as a result of the greater volume of orders and higher fixed and variable costs associated with the scaling of Andover CFC. Mature CFC UPH efficiencies continued to improve by 3.2% to 164. This improvement in mature CFC UPH was driven mainly by the Dordon CFC productivity, which regularly now exceeds 180 UPH over the period. UPH in the Hatfield CFC also improved versus last year.

Deliveries per van per week have risen to 180 (1H 2016: 175) as customer density improved, Sunday delivery slots increased and continued enhancements to our routing system. We benefited from the opening of two new spokes in the prior year (Crawley and Peterborough), but no new spokes were opened in the period.

Total administrative expenses excluding depreciation, amortisation and costs recharged to Morrisons increased to £42.6 million, a 27.5% increase from 2016. Marketing costs excluding voucher spend increased from £4.4 million to £6.1 million and 0.9% as a percentage of retail revenue (1H 2016: 0.8%).

	1H 2017 (26 weeks) £m	1H 2016 (24 weeks) £m	Variance
Central costs - other [1,2]	33.3	26.3	26.6%
Central costs - share based management incentives	3.2	2.7	18.5%
Marketing costs (excluding vouchers)	6.1	4.4	38.6%
Total administrative expenses	**42.6**	**33.4**	**27.5%**

1. Excluding chargeable Morrisons costs, depreciation and amortisation
2. 1H 2016 include a re-categorisation of £2.6 million of cost from administrative expenses to distribution costs

The increase in underlying administrative expenses was primarily due to continued investment in our strategic initiatives to support future growth, including increased costs associated with our new head offices.

Total depreciation and amortisation costs were £33.2 million (1H 2016: £27.6 million), an increase of 20.3% year-on-year. The increase year-on-year in costs was driven principally due to the commencement of operations at Andover CFC and increased vehicle numbers in line with business growth.

1H 2017 Comparatives

To aid comparability we have illustrated the key 2016 performance measures for the first 26 weeks to enable a better view of the underlying growth and performance.

	1H 2017 (26 weeks)	Adjusted [1] 1H 2016 (26 weeks)	Variance
Retail Revenue (£m)	**659.6**	**586.2**	**12.5%**
Gross profit (% of retail revenue)	29.4	28.8	0.6
Supplier income (% of retail revenue)	3.1	2.9	0.2
Distribution costs ex. Morrisons (% of retail revenue)	(21.5)	(20.9)	(0.6)
Marketing (non voucher) costs (% of retail revenue)	(0.9)	(0.8)	(0.1)
Operating Contribution (% of revenue)	10.1	10.0	0.1
Operating Contribution[2] (£m)	**66.5**	**58.6**	**13.5%**

1. 26 weeks ended 28 May 2017 ("1H 2017") and 26 weeks ended 29 May 2016 ("Adjusted 1H 2016")
2. Operating contribution is an alternative performance measure, refer to notes for further information

Retail revenues increased by 12.5% year-on-year to £659.6 million. Retail operating contribution increased ahead of revenue by 13.5% to £66.5 million. Retail operating contribution as a percentage of revenue improved by 0.1 percent to 10.1% versus prior year. This was mainly driven by improved margins and supplier income offset by the higher costs associated with the initial stages of growing volumes at Andover CFC and inflationary pressure on key cost lines.

	1H 2017 (26 weeks)	Adjusted [1] 1H 2016 (26 weeks)	Variance
Morrisons fees & MHE JVCo Income (£m)	15.2	16.7	(8.9)%
Central costs [2,3] (£m)	(36.5)	(31.3)	16.6%
EBITDA[4] (£m)	**45.2**	**44.0**	**2.7%**

1. 26 weeks ended 28 May 2017 ("1H 2017") and 26 weeks ended 29 May 2016 ("Adjusted 1H 2016")
2. Excluding chargeable Morrisons costs, depreciation and amortisation
3. 1H 2016 include a re-categorisation of £2.6 million of cost from administrative expenses to distribution costs
4. EBITDA is stated before the impact of exceptional items.

Total administrative expenses grew above the rate of revenue as we continued investment in a number of strategic initiatives to aid the future growth of the business and as we incurred higher rate of costs primarily due to increasing people costs and the associated office costs.

Share of result from joint venture

MHE JVCo Limited ("MHE JVCo") holds Dordon CFC assets, which Ocado uses to service its and Morrisons' online business and is owned 50% by Ocado and 50% by Morrisons. The Group share of MHE JVCo profit after tax in the period amounted to £0.8 million (1H 2016: £1.0 million).

Net finance costs

Net finance costs were £4.2 million, versus £4.3 million in 1H 2016. Excluded from this amount are costs of £1.1 million (1H 2016: £0.4 million) which have been capitalised in the period in relation to the £210 million RCF.

Profit before tax and exceptional items

Profit before tax and exceptional items for the period was £7.8 million (1H 2016: £8.5 million).

Taxation

Due to the availability of capital allowances and Group loss relief, the Group does not expect to pay corporation tax during the period. No deferred tax credit was recognised in the period. Ocado had approximately £268.6 million (1H 2016: £287.8 million) of unutilised carried forward tax losses at the end of the period.

Earnings per share

Basic earnings per share were 1.26p (1H 2016: 1.45p) and diluted earnings per share were 1.23p (1H 2016: 1.40p).

Capital expenditure

Capital expenditure for the period:

	1H 2017 (26 weeks) £m	1H 2016 (24 weeks) £m
Mature CFCs	0.8	1.5
New CFCs	29.5	17.1
Delivery	7.2	13.7
Technology	19.8	13.3
Fulfilment Development	10.2	5.8
Other	6.2	1.9

Total capital expenditure[1, 2] (excluding share of MHE JVCo)	**73.7**	**53.3**
Total capital expenditure[3] (including share of MHE JVCo)	**74.2**	**55.0**

1. Capital expenditure includes tangible and intangible assets
2. Capital expenditure excludes assets leased from MHE JVCo under finance lease arrangements
3. Capital expenditure includes Ocado share of the MHE JVCo capex in 2017 of £0.5 million and in 1H 2016 of £1.7 million

Capital expenditure in the Hatfield CFC was £0.8 million which mainly related to a number of small projects to improve the capacity and resiliency of this site.

We incurred £29.5 million of costs in the period for our new CFCs. Andover CFC commenced operations at the end of 2016 and has steadily increased volumes during 2017, with a potential eventual capacity above 65,000 OPW. The fit out of the next CFC located in Erith, South East London continued according to plan and this site is expected to open in 2018 with a potential eventual capacity above 200,000 OPW.

Total expenditure on new vehicles in the period was £6.1 million (1H 2016: £8.9 million), lower than the prior year mainly due to timing of purchases between the first and second half of 2017. 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 £16.2 million (1H 2016: £10.0 million) of internal development costs in the period on Technology, with a further £3.6 million (1H 2016: £3.3 million) spent on computer hardware and software. We expanded our technology total headcount to approaching 1,000 staff at the end of the period (FY 2016: over 850 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 or private cloud services, improvements in the efficiency of our routing systems, enhancements to our customer proposition, developing a store pick solution for implementation by Morrisons and support for the growth of Andover CFC.

Fulfilment development capital expenditure includes £10.2 million of investment in developing our next generation fulfilment solutions, which will be used in our new CFCs and for those of our business partners.

In the period, we incurred our share of the capital expenditure relating to MHE JVCo of £0.5 million (1H 2016: £1.7 million) to improve operational capacity and efficiency of the Dordon CFC and various minor improvement projects.

Other capital expenditure of £6.2 million in the period, included £3.1 million of capital expenditure related mainly to our head office move. In addition to this, we spent £2.8 million on our general merchandise business to support growth in capacity in our existing general merchandise facility and the associated development costs for our second general merchandise distribution centre.

At 28 May 2017, capital commitments contracted, but not provided for by the Group, amounted to £41.8 million (FY 2016: £34.4 million; 1H 2016: £18.6 million). We expect capital expenditure in 2017 to be approximately £175 million which mainly comprises the continuing investment in our infrastructure and technology solutions, roll out of our new CFCs and additional investment in new vehicles to support business growth and the replacement of vehicles coming to the end of their five year financing contracts.

Cash flow

Net operating cash flow after finance costs increased to £48.1 million, down 1.4% from £48.8million in 1H 2016 as detailed below:

	1H 2017 (26 weeks) £m	1H 2016 (24 weeks) £m
EBITDA[1]	**45.2**	**40.4**
Working capital movement	5.3	9.9
Other non-cash items	2.0	1.1

Finance costs paid	(4.4)	(2.6)
Operating cash flow	**48.1**	**48.8**
Capital investment	(88.7)	(44.9)
Increase/(Decrease) in net debt/finance obligations	27.0	2.5
Proceeds from share issues net of transaction costs	0.5	0.5
Movement in cash and cash equivalents	**(13.1)**	**6.9**

1. EBITDA is stated before the impact of exceptional items

Operating cash flow decreased by £0.7 million during the year driven by an increase in finance costs paid and a reduction in working capital, offset by an increase in EBITDA. The working capital inflow of £5.3 million is driven by an increase in trade payables and accruals of £21.6 million and a reduction in inventories of £3.4 million, offset by an increase in trade and other receivables of £19.7 million.

During the period £88.7 million of capital expenditure was paid in cash 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. This was significantly higher than the reported capital expenditure of £73.7 million because a number of large asset purchases accrued for at FY 2016 have now been received and paid for.

Net financing cash flows in the period were £27.5 million comprising £27.0 million of new net debt and financing obligations and £0.5 million of proceeds from the issue of new share capital following the exercise of employee share options.

Balance sheet

The Group had cash and cash equivalents of £37.8 million at the end of period versus £50.9 million as at 27 November 2016.

Gross debt at the period end was £248.3 million (FY 2016: £215.8 million) and external gross debt, excluding obligations under finance leases owing to MHE JVCo, was £140.2 million (FY 2016: £107.1 million). The increase in net external debt is due to the level of investment in improving our platform and additional UK capacity being ahead of cash generation. Net external debt at the period end was £102.4 million (FY 2016: £56.1 million). The increase of £46.3 million was mainly driven by a further drawdown of £35.0 million on the RCF (excluding capitalised transaction fees of £2.2 million), during the period which is currently used for funding our capital investment. The balance was a result of £13.1 million decline in cash, £7.0 million of additional vehicle and property debt, offset by net repayments of £7.8 million of borrowings.

Trade and Other Receivables includes £38.7 million (1H 2016: £30.3 million) of amounts due from suppliers in respect of commercial income. £18.3 million (1H 2016: £16.1 million) is within trade receivables, and £20.4 million (1H 2016: £14.2 million) within accrued income.

Included within property, plant and equipment is capital work-in-progress for land and buildings of £35.2 million (1H 2016: £33.4 million) and capital work-in-progress for fixtures, fittings, plant and machinery of £22.0 million (1H 2016: £85.9 million), the decrease relating to Andover CFC and associated software going live in 2H 2016.

Increasing financing flexibility

At the period end the Group had an existing unsecured RCF of £210 million with an expiry of July 2019. We had utilised £87.5 million of this facility at the period end.

Post the end of the current period we announced the successful placing of £250 million Senior Secured Notes due 2024 at a coupon of 4% bond as well as an amendment and extension to our current RCF which was reduced to £100 million and extended to June 2022. This refinancing will be used for the continued growth of our UK retail business and further development of our platform.

Key performance indicators

The following table sets out a summary of selected unaudited operating information for 1H 2017 and 1H 2016:

	1H 2017 (26 weeks)	1H 2016 (24 weeks)	Variance

Average orders per week	260,000	225,000	15.6%
Average order size (£)[1]	108.45	109.94	(1.4)%
Overall CFC efficiency (units per hour)[2]	164	159	3.2%
Average deliveries per van per week (DPV/week)	180	175	2.7%
Average product wastage (% of retail revenue)[3]	0.7%	0.8%	0.1%
Items delivered exactly as ordered[4]	98.9%	99.1%	(0.2)%
Deliveries on time or early	95.0%	94.9%	0.1%

Source: the information in the table above is derived from information extracted from internal financial and operating reporting systems and is unaudited
1. Average retail value of goods a customer receives (including VAT and delivery charge) per order from Ocado.com
2. Measured as units dispatched from the CFC per variable hour worked by Hatfield CFC and Dordon CFC operational personnel. We consider a CFC to be mature if it had been open 12 months by the start of the half year reporting period
3. Value of products purged for having passed Ocado's "use by" life guarantee divided by retail revenue
4. Percentage of all items delivered exactly as ordered, i.e. the percentage of items neither missing or substituted

Condensed consolidated income statement
for the 26 weeks ended 28 May 2017

	Notes	26 weeks ended 28 May 2017 £m	24 weeks ended 15 May 2016 £m	52 weeks ended 27 November 2016 £m
		(unaudited)	(unaudited)	(audited)
Revenue	6	713.8	584.2	1,271.0
Cost of sales		(466.0)	(384.8)	(835.7)
Gross profit		247.8	199.4	435.3
Other income		26.3	22.7	52.9
Distribution costs		(208.1)	(163.6)	(365.7)
Administrative expenses		(54.8)	(46.7)	(100.6)
Operating profit before share of result from joint venture and exceptional items		11.2	11.8	21.9
Share of result from joint venture		0.8	1.0	2.1
Exceptional items		(0.1)	-	(2.4)
Operating profit		11.9	12.8	21.6
Finance income	7	0.2	0.1	0.2
Finance costs	7	(4.4)	(4.4)	(9.7)
Profit before tax		7.7	8.5	12.1
Taxation		-	0.1	(0.1)
Profit for the period		7.7	8.6	12.0
Earnings per share		Pence	Pence	Pence
Basic	10	1.26	1.45	2.02
Diluted	10	1.23	1.40	1.96

Alternate performance measure: Earnings before interest, taxation, depreciation, amortisation, impairment and exceptional items (EBITDA)

	26 weeks ended 28 May 2017 £m	24 weeks ended 15 May 2016 £m	52 weeks ended 27 November 2016 £m
	(unaudited)	(unaudited)	(audited)
Operating profit	11.9	12.8	21.6
Adjustments for:			

Depreciation of property, plant and equipment	26.1	21.7	47.0
Amortisation expense	6.9	5.8	12.6
Impairment of property, plant and equipment	-	-	0.3
Impairment of intangibles	0.2	0.1	0.4
Exceptional items - impairment of property, plant and equipment	-	-	0.7
Exceptional items - head office relocation	-	-	0.8
Exceptional items - other	0.1	-	0.9
EBITDA*	45.2	40.4	84.3

*EBITDA is an Alternate performance measure, refer to note 5 for further information.

Condensed consolidated statement of comprehensive income
for the 26 weeks ended 28 May 2017

	26 weeks ended 28 May 2017	24 weeks ended 15 May 2016	52 weeks ended 27 November 2016
	£m	£m	£m
	(unaudited)	(unaudited)	(audited)
Profit for the period	7.7	8.6	12.0
Other comprehensive (expense)/income:			
Items that may subsequently be reclassified to profit or loss:			
Cash flow hedges:			
- Gains arising on forward contracts	-	-	0.1
- Gains arising on commodity swaps	0.4	-	0.9
- Losses arising on commodity swaps	(0.4)	-	(1.1)
Less: amounts reclassified to profit or loss	(0.4)	-	0.8
Foreign exchange gains on translation of foreign subsidiary	0.2	(0.1)	0.3
Other comprehensive (expense)/income for the period, net of tax	(0.2)	(0.1)	1.0
Total comprehensive income for the period	7.5	8.5	13.0

Condensed consolidated balance sheet
as at 28 May 2017

	Notes	28 May 2017	15 May 2016	27 November 2016
		£m	£m	£m
		(unaudited)	(unaudited)	(audited)
Non-current assets				
Intangible assets		96.0	62.4	79.7
Property, plant and equipment		421.9	346.6	397.3
Deferred tax asset		14.3	10.1	14.2
Financial assets		0.4	2.9	2.6
Investment in Joint Venture		57.8	63.0	57.1
		590.4	485.0	550.9
Current assets				
Inventories		35.7	28.4	39.1
Trade and other receivables		80.2	68.3	59.4
Derivative financial instruments		-	-	0.3
Cash and cash equivalents		37.8	52.7	50.9
		153.7	149.4	149.7
Total assets		744.1	634.4	700.6

Current liabilities				
Trade and other payables		(206.0)	(180.1)	(205.6)
Borrowings	9	(86.6)	(11.4)	(52.9)
Obligations under finance leases	9	(37.0)	(34.6)	(29.8)
Derivative financial instruments		(0.4)	(0.1)	(0.2)
Provisions		(0.4)	(1.9)	(2.4)
		(330.4)	(228.1)	(290.9)
Net current liabilities		(176.7)	(78.7)	(141.2)
Non-current liabilities				
Borrowings	9	(5.6)	(6.8)	(6.1)
Obligations under finance leases	9	(119.1)	(136.1)	(127.0)
Provisions		(9.1)	(5.6)	(7.3)
Deferred tax liability		(6.8)	(2.6)	(6.9)
		(140.6)	(151.1)	(147.3)
Net assets		273.1	255.2	262.4
Equity				
Share capital		12.6	12.6	12.6
Share premium		257.4	256.2	256.9
Treasury shares reserve		(48.0)	(48.1)	(48.0)
Reverse acquisition reserve		(116.2)	(116.2)	(116.2)
Other reserves		-	0.2	(0.2)
Retained earnings		167.3	150.5	156.9
Total equity		273.1	255.2	262.4

Condensed consolidated statement of cash flows
for the 26 weeks ended 28 May 2017

	Notes	26 weeks ended 28 May 2017 £m	24 weeks ended 15 May 2016 £m	52 weeks ended 27 November 2016 £m
		(unaudited)	(unaudited)	(audited)
Cash flow from operating activities				
Profit before tax		7.7	8.5	12.1
Adjustments for:				
- Depreciation, amortisation and impairment losses		33.2	27.6	61.0
- Movement in provisions		(0.3)	(1.3)	0.6
- Share of profit in joint venture		(0.8)	(1.0)	(2.1)
- Share-based payments charge		3.2	3.4	6.4
- Net finance costs	7	4.2	4.3	9.5
Changes in working capital:				
- Movement in inventories		3.4	1.5	(9.2)
- Movement in trade and other receivables		(19.7)	(7.4)	2.5
- Movement in trade and other payables		21.6	15.8	25.2
Cash generated from operations		52.5	51.4	106.0
Interest paid		(4.4)	(2.6)	(9.1)
Net cash flows from operating activities		48.1	48.8	96.9
Cash flows from investing activities				
Purchase of property, plant and equipment		(63.5)	(30.3)	(85.3)
Purchase of intangible assets		(25.2)	(14.7)	(38.6)
Dividend received from joint venture		-	-	8.4
Interest received		-	0.1	0.2
Net cash flows from investing activities		(88.7)	(44.9)	(115.3)

Cash flows from financing activities			
Proceeds from the issue of ordinary share capital net of transactions costs	0.5	0.5	1.1
Proceeds from borrowings	57.5	10.0	61.3
Repayments of borrowings	(22.5)	(0.8)	(11.5)
Repayments of obligations under finance leases	(7.6)	(6.8)	(26.4)
Payment of financing fees	(0.4)	(0.2)	(1.2)
Settlement of cash flow hedges	-	0.3	0.2
Net cash flows from financing activities	27.5	3.0	23.5
Net (decrease)/increase in cash and cash equivalents	(13.1)	6.9	5.1
Cash and cash equivalents at the beginning of the period	50.9	45.8	45.8
Cash and cash equivalents at the end of the period	37.8	52.7	50.9

Condensed consolidated statement of changes in equity

for the 26 weeks ended 28 May 2017

	Share capital £m	Share premium £m	Treasury shares reserve £m	Reverse acquisition reserve £m	Other reserves £m	Retained earnings £m	Total equity £m
Balance at 27 November 2016	12.6	256.9	(48.0)	(116.2)	0.2	156.9	262.4
Profit for the period	-	-	-	-	-	7.7	7.7
Other comprehensive income:							
Currency translation differences	-	-	-	-	-	(0.5)	(0.5)
Cash flow hedges							
- (Losses) arising on hedging contracts	-	-	-	-	(0.4)	-	(0.4)
Translation of foreign subsidiary	-	-	-	-	0.2	-	0.2
Total comprehensive income for the period	-	-	-	-	(0.2)	7.2	7.0
Transactions with owners:							
- Issue of ordinary shares	-	0.5	-	-	-	-	0.5
- Movement in treasury shares	-	-	-	-	-	-	-
- Share-based payments charge	-	-	-	-	-	3.2	3.2
Total transactions with owners	-	0.5	-	-	-	3.2	3.7
Balance at 28 May 2017	12.6	257.4	(48.0)	(116.2)	-	167.3	273.1

	Share capital £m	Share premium £m	Treasury shares reserve £m	Reverse acquisition reserve £m	Other reserves £m	Retained earnings £m	Total equity £m
Balance at 29 November 2015	12.6	258.7	(50.9)	(116.2)	(0.8)	138.5	241.9
Profit for the period	-	-	-	-	-	8.6	8.6
Other comprehensive income:							
Cash flow hedges							
- Gains arising on forward commodity contracts	-	-	-	-	0.8	-	0.8
- Gains transferred to property, plant and equipment	-	-	-	-	-	-	-
Translation of foreign subsidiary	-	-	-	-	0.2	-	0.2
Total comprehensive income for the period	-	-	-	-	1.0	8.6	9.6
Transactions with owners:							
- Issue of ordinary shares	-	0.4	-	-	-	-	0.4

- Movement in treasury shares	-	(2.9)	2.8	-	-	-	(0.1)
- Share-based payments charge	-	-	-	-	-	3.4	3.4
Total transactions with owners	-	(2.5)	2.8	-	-	3.4	3.7
Balance at 15 May 2016	12.6	256.2	(48.1)	(116.2)	0.2	150.5	255.2

Notes to the condensed consolidated interim financial information

1 General information

Ocado Group plc (hereafter "the Company") is incorporated and domiciled in England and Wales (registration number 07098618). The address of its registered office is Buildings One & Two, Trident Place, Mosquito Way, Hatfield, AL10 9UL. The condensed consolidated interim financial information (hereafter "financial information") comprises the results of the Company and its subsidiaries (hereafter "the Group").

The financial period represents the 26 weeks ended 28 May 2017 (prior period 24 weeks ended 15 May 2016; prior financial year 52 weeks ended 27 November 2016).

2 Basis of preparation

The financial information has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union and the Disclosure Rules and Transparency Rules of the UK Financial Conduct Authority.

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 27 November 2016 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 information is presented in sterling, rounded to the nearest hundred thousand unless otherwise stated. It has been prepared under the historical cost convention, except for derivative financial instruments, which have been measured at fair value.

The directors are satisfied that the Company has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the condensed consolidated financial statements. In assessing going concern, the Directors take into account the Group's cash flows, solvency and liquidity positions and borrowing facilities. At the period end, the Group had cash and cash equivalents of £37.8 million (1H 2016: £52.7 million) and net current liabilities of £176.7 million (1H 2016: £78.7 million). Since the period end, the Group has issued £250.0 million of senior secured notes with a coupon rate of 4% and renegotiated its revolving credit facility.

3 Accounting policies

The accounting policies applied by the Group in these interim financial statements are consistent with those applied by the Group in its consolidated financial statements for the 52 weeks ended 27 November 2016. During the current financial period, the Group has not been required to adopt any new accounting standards.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation were the same as those that applied to the Annual Report and Accounts for the 52 weeks ended 27 November 2016.

4 Segmental reporting

The Group's principal activity is grocery retailing and the development of Intellectual Property ("IP") and technology used for the online retailing, logistics and distribution of grocery and consumer goods for our UK business and other partners. The Group is not reliant on any major customer for 10% 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 and for which discrete information is available. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, as required by IFRS 8. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Directors.

The principal activities of the Group are currently managed as one segment. Consequently, all activities relate to this segment.

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

5 Alternative performance measures

We assess the performance of the Group 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 use are as follows:

Gross Sales

Gross Sales is a measure of reported revenue before excluding value added tax and relevant vouchers and offers. Gross Sales is a common measure used by investors and analysts to evaluate the operating financial performance of companies within the retail sector.

Exceptional Items

The Group's condensed 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

Operating contribution

Operating contribution is equal to the sum of Revenue (Retail) and supplier income less cost of sales, distribution costs (other than depreciation and amortisation), and non-voucher marketing costs (which are within administrative expenses).

EBITDA

In addition to measuring financial performance of the Group based on operating profit, we also measure 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. We consider EBITDA to be a useful measure of our operating performance because it approximates the underlying operating cash flow by eliminating depreciation and amortisation. EBITDA is not a direct measure of our liquidity, which is shown by our cash flow statement, and needs to be considered in the context of our financial commitments.

Net debt

Net debt consists of loans and other borrowings (both current and non-current), less cash and cash equivalents. Loans and other borrowings are measured as the net proceeds raised, adjusted to amortise any discount over the term of the debt. Net debt 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 debt' does not necessarily mean that the cash included in the net debt calculation is available to settle the liabilities included in this measure. Net debt 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.

6 Gross sales

	26 weeks ended 28 May 2017	24 weeks ended 15 May 2016	52 weeks ended 27 November 2016
	£m	£m	£m
	(unaudited)	(unaudited)	(audited)
Revenue	713.8	584.2	1,271.0
VAT	55.1	44.2	98.9
Marketing vouchers	10.1	7.4	16.8
Gross sales	779.0	635.8	1,386.7

7 Finance income and costs

	26 weeks ended 28 May 2017	24 weeks ended 15 May 2016	52 weeks ended 27 November 2016
	£m	£m	£m
	(unaudited)	(unaudited)	(audited)
Interest on cash balances	0.2	0.1	0.2
Finance income	0.2	0.1	0.2
Borrowing costs			
- Obligations under finance leases	(4.1)	(4.2)	(9.4)
- Borrowings	(0.3)	(0.2)	(0.3)
Finance costs	(4.4)	(4.4)	(9.7)
Net finance costs	(4.2)	(4.3)	(9.5)

8 Capital expenditure and commitments

During the period the Group acquired property, plant and equipment of £50.9 million (FYE 2016: £118.0 million, 1H 2016: £41.4 million). During the period, the Group acquired intangible assets of £2.9 million (FYE 2016: £4.9 million, 1H 2016: £1.8 million) and internal development costs capitalised were £20.4 million (1H 2016: £13.4 million).

In the period the Group disposed of property, plant and equipment with a net book value of £0.1 million (1H 2016: £Nil). At 28 May 2017, capital commitments contracted, but not provided for by the Group, amounted to £41.8 million (FYE 2016: £34.8 million, 1H 2016: £18.6 million).

9 Borrowings and obligations under finance leases

	26 weeks ended 28 May 2017	24 weeks ended 15 May 2016	27 November 2016
	£m	£m	£m
	(unaudited)	(unaudited)	(audited)
Current liabilities			
Borrowings	86.6	11.4	52.9
Obligations under finance leases	37.0	34.6	29.8
	123.6	46.0	82.7
Non-current liabilities			
Borrowings	5.6	6.8	6.1
Obligations under finance leases	119.1	136.1	127.0
	124.7	142.9	133.1

Total Group borrowings and finance leases	248.3	188.9	215.8

10 Earnings per share

Basic earnings per share is calculated by dividing the profit 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 which are accounted for as treasury shares.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potentially dilutive shares. The Company has three categories of potentially dilutive shares, namely share options, shares held pursuant to the Group's Joint Share Ownership Scheme and shares under the Group's staff incentive plans.

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

	26 weeks ended 28 May 2017	24 weeks ended 15 May 2016	52 weeks ended 27 November 2016
	million	million	million
	(unaudited)	(unaudited)	(audited)
Number of shares			
Issued shares at the beginning of the period	598.8	590.6	590.6
Weighted average effect of share options exercised in the period	0.2	0.8	2.5
Weighted average effect of treasury shares disposed of in the period	-	0.5	1.3
Weighted average number of shares at the end of the period for the purposes of basic earnings per share	599.0	591.9	594.4
Potentially dilutive share options and shares	15.7	26.9	19.1
Weighted average numbers of diluted ordinary shares	614.7	618.8	613.5
Earnings	£m	£m	£m
Profit for the period	7.7	8.6	12.0
	pence	pence	pence
Basic earnings per share	1.26	1.45	2.02
Diluted earnings per share	1.23	1.40	1.96

11 Related party transactions

Key management personnel

Only the Executive and Non-Executive Directors are deemed to be key management personnel. It is the Board which has responsibility for planning, directing and controlling the activities of the Group. Save for key management personnel remuneration, related party transactions with key management personnel made during the period related to the purchase of professional services and amounted to £1,800 (1H 2016: £750). All transactions with Directors are on an arm's length basis and no period end balances have arisen as a result of these transactions.

At the end of the period, key management personnel did not owe the Group any amounts (1H 2016: £nil). There were no other material transactions or balances between the Group and its key management personnel or members of their close family.

Investment

The Group holds a 25% interest in Paneltex Limited whose registered office is at Paneltex House, Somerden Road, Hull, HU9 5PE. The Group's interest in Paneltex Limited has not been treated as an associated undertaking as Ocado does not have significant influence over Paneltex Limited. The following direct transactions were carried out with Paneltex Limited:

	26 weeks ended 28 May 2017	24 weeks ended 15 May 2016	52 weeks ended 27 November 2016
	£m	£m	£m
	(unaudited)	(unaudited)	(audited)
Purchase of goods			
- Consumables	0.2	0.2	0.5

Sales of goods	-	-	0.1
	0.2	0.2	0.6

Indirect transactions, consisting of the purchase of plant and machinery through some of the Group's finance lease counterparties, were carried out with Paneltex Limited to the value of £3.3 million (1H 2016: £3.6 million).

At period end, the Group owed £6,000 to Paneltex and is owed £7,000 from Paneltex (1H 2016: the Group owed £45,000 to Paneltex and was owed £6,000 from Paneltex).

Joint Venture

The following transactions were carried out with MHE JVCo, a joint venture company in which the Group holds a 50% interest:

	26 weeks ended 28 May 2017 £m	24 weeks ended 15 May 2016 £m	52 weeks ended 27 November 2016 £m
Sale and Leaseback Transaction			
Capital contributions made to MHE JVCo	-	-	1.1
Dividend received from MHE JVCo	-	-	8.4
Reimbursement of supplier invoices paid on behalf of MHE JVCo	0.1	3.5	4.9
Lease of assets from MHE JVCo	-	3.1	3.1
Capital element of finance lease instalments paid to MHE JVCo	0.6	-	13.8
Interest element of finance lease instalments accrued or paid to MHE JVCo	2.6	2.7	5.8

Included within trade and other receivables is a balance of £6.5 million owed by MHE JVCo (1H 2016: £5.3 million). Included within trade and other payables is a balance of £15.7 million owed to MHE JVCo (1H 2016: £3.9 million). Included within obligations under finance leases is a balance of £108.1 million owed to MHE JVCo (1H 2016: £121.6 million).

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

12 Analysis of net debt

Net debt

	28 May 2017 £m	15 May 2016 £m	27 November 2016 £m
	(unaudited)	(unaudited)	(audited)
Current assets			
Cash and cash equivalents	37.8	52.7	50.9
	37.8	52.7	50.9
Current liabilities			
Borrowings	(86.6)	(11.4)	(52.9)
Obligations under finance leases	(37.0)	(34.6)	(29.8)
	(123.6)	(46.0)	(82.7)
Non-current liabilities			
Borrowings	(5.6)	(6.8)	(6.1)
Obligations under finance leases	(119.1)	(136.1)	(127.0)
	(124.7)	(142.9)	(133.1)
Net debt	(210.5)	(136.2)	(164.9)

Net debt is calculated as total debt (obligations under finance leases and borrowings as shown in the condensed consolidated balance sheet), less cash and cash equivalents.

Reconciliation of net cash flow to movement in net debt

	26 weeks ended 28 May 2017	24 weeks ended 15 May 2016	52 weeks ended 27 November 2016

	£m	£m	£m
	(unaudited)	(unaudited)	(audited)
Net (decrease)/increase in cash and cash equivalents	(13.1)	6.9	5.1
Net decrease/(increase) in debt and lease financing	(25.5)	(2.2)	(23.4)
Non-cash movements:			
- Assets acquired under finance lease	(7.0)	(13.9)	(19.6)
Movement in net debt in the period	(45.6)	(9.2)	(37.9)
Opening net debt	(164.9)	(127.0)	(127.0)
Closing net debt	(210.5)	(136.2)	(164.9)

13 Financial instruments

The Group has commodity swap contracts to manage its exposure to fuel prices. The commodity swap is classed in level two of the financial instruments hierarchy. Level two fair value measurements are those derived from inputs other than quoted pries that are observable for the asset or liability, either directly or indirectly.

The directors consider that the carrying value amounts of financial asset and financial liabilities recorded at amortised cost in the financial statements are approximately equal to their fair values.

14 Post balance sheet events

Since the period end, the Group has issued £250.0 million of senior secured notes with a coupon rate of 4%. There were no other events after the balance sheet date which require adjustment to, or disclosure in, the financial information.

Principal risks and uncertainties

The Group faces a number of risks and uncertainties that may have an adverse impact on the Group's operation, performance or future prospects. The Board has identified the following principal risks and uncertainties to the successful operation of the business. These risks, along with the events in the financial markets and their potential impacts on the wider economy, remain those most likely to affect the Group in the second half of the year. The principal risks and uncertainties are consistent with those set out in Ocado Group plc's Annual Report and Accounts for the 52 weeks ended 27 November 2016.

- Failure to maintain competitive pricing position
- A risk of decline in high service levels
- Failure to develop retail proposition to appeal to broader customer base and sustain growth rates
- Failure to develop sufficient management and technology capability or bandwidth to deliver on all our strategic priorities
- Risk of not signing multiple OSP deals in the medium term
- Risk of negative implications caused by final Brexit terms such as increase in import costs or difficulty in hiring employees
- A risk of delays in the implementation of new capacity for both Ocado and Morrisons
- Technological innovation supersedes our own and offers improved methods of food distribution to consumers
- Failure to protect our IP
- Failure to ensure that our technology can be freely operated without infringing a third party's IP
- A risk of a food or product safety incident
- A risk of changes in regulations impacting our retail business model or the viability of OSP deals
- Risk of major cyber-attack or data loss
- Business interruption

More information on most of these principal risks and uncertainties together with an explanation of the Group's approach to risk management is set out in Ocado Group plc's Annual Report and Accounts for the 52 weeks ended 27 November 2016 on pages 36 to 37, a copy of which is available on the Group's corporate website, www.ocadogroup.com.

INDEPENDENT REVIEW REPORT TO OCADO GROUP PLC

We have been engaged by the Ocado Group plc (the "Company") to review the set of condensed consolidated financial statements in the half-yearly financial report for the 26 weeks ended 28 May 2017 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated statement of cash flows, the condensed consolidated statements of changes in equity, and the related notes 1 to 14. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities
The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

Our responsibility
Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review
We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 28 May 2017 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Statutory Auditor
London
5 July 2017

Statement of Directors' responsibilities

The Directors confirm that, to the best of their knowledge, this condensed set of consolidated financial statements have been prepared in accordance with IAS 34 ('Interim Financial Reporting') as adopted by the European Union, and that the interim management report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R of the Disclosure Rules and Transparency Rules.

The Directors of Ocado Group plc as at the date of this announcement are as follows:

Executive Directors
Tim Steiner, Chief Executive Officer;
Neill Abrams, Group General Counsel & Company Secretary;
Duncan Tatton-Brown, Chief Financial Officer;
Mark Richardson, Chief Operations Officer;
Non-Executive Directors

Lord Rose, Chairman;
Alex Mahon, Senior Independent Director;
Ruth Anderson;
Jörn Rausing;
Douglas McCallum;
Andrew Harrison; and
Emma Lloyd

Approved by the Board and signed on its behalf by

Duncan Tatton-Brown
Chief Financial Officer

Neill Abrams
Group General Counsel & Company Secretary

5 July 2017

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

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