Final Results

,

RNS Number : 1922Z
Ocado Group PLC
04 February 2014

OCADO GROUP PLC

Preliminary results for the 52 weeks ended 1 December 2013

4 February 2014

Key financials and statutory highlights[1]

	52 Weeks 2013 £m	53 Weeks 2012 £m	53 Weeks Variance %	52 Weeks 2012 £m	52 Weeks Variance %
Gross sales [2] (Retail)	843.0	731.9	15.2%	719.0	17.2%
Revenue [3]	792.1	678.6	16.7%	666.6	18.8%
EBITDA [4]	45.8	34.5	32.8%	33.9	35.1%
(Loss)/profit before tax before exceptional items [5]	(5.1)	1.8			
Loss before tax	(12.5)	(0.6)			
Cash and cash equivalents	110.5	89.6			
Net debt	(50.9)	(55.2)			

Strategic progress
During the year the grocery market accelerated its structural shift to online. We improved our sales growth, added significant fulfilment capacity and signed a transformational agreement with Wm Morrison Supermarkets Plc ("Morrisons").

Developing our proposition to customers

- Industry leading service levels for both on time delivery and in full orders improved further with orders delivered on time or early significantly increased to 95.2% (2012: 92.7%) and item accuracy improved to 99.0% (2012: 98.0%)
- Range extended at Ocado.com to 34,000 SKUs (2012: 28,000 SKUs)
- Launched Fetch.co.uk ("Fetch"), a specialist pet shop with over 6,000 SKUs, and the first of our dedicated destination stores
- Price initiatives, including Low Price Promise, impacted positively on customer price perceptions and our actual price position relative to competitors.

Growing customer numbers and spend

- Active customers increased to 385,000 (2012: 355,000), with new customer acquisition over 40% up on 2012
- Growth in frequent shoppers increased over twice as quickly as growth in active customers due to increased focus on new customer acquisition rather than low value customer retention

- Average baskets increased to £113.53 (2012: £112.10).

Optimising operations

- Improved Hatfield Customer Fulfilment Centre ("CFC1") capacity and efficiency with average productivity increased to 135 UPH (2012: 121 UPH)
- Delivery performance improved to 160 DPV per week (2012: 152 DPV per week).

Enhancing capital efficiency of future capacity

- Our new Customer Fulfilment Centre in Dordon ("CFC2") opened on time and on budget, with further capacity increase underway, and CFC2 variable cost per order now lower than CFC1
- First dedicated Non-Food Distribution Centre ("NFDC") opened in Welwyn Garden City to support continued growth of non-food business.

Developing and leveraging our proprietary intellectual property

- First strategic client, Morrisons, confirmed, and Morrisons.com successfully launched improving Ocado operating economics.

Tim Steiner, Chief Executive Officer of Ocado, said:

"Last year the food retail market in the UK was driven by consumers' increasing preference for shopping online. Today the momentum seems unstoppable and, as the market evolves, we are leading the way in delivering market-leading service, innovation, and technology to the benefit of our customers.

"2013 was an extremely busy year for us with significant progress in growing both our customer numbers and average spend thanks to a wider range of products, even better prices, and the fact that we are now even easier to shop. We have continued to grow our general merchandise business, adding depth to the range in certain non-food categories and launching Fetch, our specialist online pet store.

"The successful opening of our new CFC during the year provides us with the capacity to continue to grow and we are well placed to take advantage of significant change in our industry.

"During the year, we also announced a long term agreement with our first strategic client, Morrisons, to provide them with IP and operating services to launch their online grocery business. The efforts of our teams, and the strength of our technology platform, have allowed us to deliver this project successfully in a very short timeframe. This development reflects the increasing demand for online grocery shopping in the UK and internationally, and a validation of the unique technology, IP and operating model pioneered by Ocado. We are confident that we are well positioned to benefit from future strategic developments as online grocery shopping increases in popularity. "

Results presentation

A results presentation will be held for investors and analysts at 9:30am today at the offices of Goldman Sachs, Peterborough Court, 133 Fleet Street, London EC4A 2BB. Presentation material will be available online at http://www.ocadogroup.com/.

The presentation will be webcast and can be viewed at www.ocadogroup.com/investor-centre/fy13-preliminary-results-webcast.aspx.

Contacts

- Tim Steiner, Chief Executive Officer on 020 7353 4200 today and 01707 228 000
- Duncan Tatton-Brown, Chief Financial Officer on 020 7353 4200 today and 01707 228 000
- David Hardiman-Evans, Head of IR & Corporate Finance on 020 7353 4200 today and 01707 228 000
- Andrew Grant, David Shriver, Katharine Wynne at Tulchan Communications on 020 7353 4200

Notes

1. 2012 comparative period is 52 weeks ending 2 December 2012. For statutory reporting purposes, the 2012 financial year comprised 53 weeks ending 2 December 2012.
2. Gross sales includes revenue plus VAT and marketing vouchers.
3. Revenue and EBITDA are based on Group numbers.
4. EBITDA is defined as earnings before interest, taxation, depreciation of property, plant and equipment, amortisation expense, impairment of property, plant and equipment, intangibles and exceptional items.
5. Exceptional items are made up of £7.4 million related to the pre-opening costs for the CFC2 and the NFDC and the legal and advisory fees associated with the Morrisons transaction.

Chief Executive Officer's review

The last twelve months have been an important period of development for Ocado as we improved the shopping experience for our customers, while making significant progress in each of our strategic objectives of driving growth, maximising our efficiency and utilising our knowledge, each important elements for our ultimate goal of delivering long term shareholder value. In particular, we have opened our new Customer Fulfilment Centre in Dordon, Warwickshire, and signed a landmark agreement with Morrisons to launch and operate their online grocery business. Our offer to customers continued to improve and we delivered year-on-year sales growth ahead of the online grocery market.

At the same time the underlying market for online grocery shopping continues to expand, with all major supermarket groups investing to satisfy this growing demand and a general acknowledgement of the structural shift to online taking place in the grocery sector. Our strategy, intellectual property and unique approach, which is based on aggregation of scale, automation and proprietary technology position us strongly in this expanding market.

Strategic objectives

We drive shareholder value through the application and commercialisation of our proprietary intellectual property and technology. This allows us to deliver our strategic objectives through a number of complementary strategic actions:

- Developing our proposition to customers to retain our market leading position in terms of service, range and price;
- Growing customer numbers and spend by building an ever growing base of loyal and valuable customers and encouraging them to use Ocado for more of their needs;
- Optimising operations to operate our service at the lowest possible cost;
- Enhancing the capital efficiency of future capacity and driving scale benefits; and
- Developing and leveraging our proprietary intellectual property and technology to generate significant value through monetisation.

Developing our proposition to customers

We have continued to improve the key elements of our proposition to customers - the quality of our service, the range of products we offer, and consumers' confidence in our prices.

A high quality and reliable delivery service is critical to consumers adopting the online channel for their grocery shopping. We believe our customer delivery service remains market leading in the accuracy of orders and on time performance. Orders delivered on time or early significantly improved to 95.2% (2012: 92.7%) and order accuracy also improved to 99.0% (2012: 98.0%) during the period.

We recognise the importance of the shopping experience for existing and potential new customers with speed, ease of use and convenience particularly key elements. We continued to improve each of these aspects during the period. We simplified and shortened the registration process for first time users and enabled customers to import their favourites from existing online shopping competitors, both features reducing the barriers for a new shopper to come to Ocado. We introduced Smart Pass, our membership scheme which combines free delivery, everyday discounts on a range of brands, priority Christmas Delivery slots and exclusive discounts. The majority of orders are now made by Smart Pass holders. We remain at the forefront of the mobile shopping trend, as we continue to enhance our iOS and Android apps. Over 45% of all orders delivered are now checked out over a mobile device, with mobile apps accounting for 34% of all checkouts.

Our aim is to make the shopping experience more personal for each customer, and we have continued along this path by having personalised homepages for customers when they are logged in. We seek to provide customers with inspiration for their cooking, and in the year we introduced recipes on "edit order" reminders.

We extended our range at Ocado.com during the period by around 20% to 34,000 products, including everyday items, our own brand, more non-food and additional specialist ranges. This now significantly exceeds the offer in a standard supermarket. Recent new ranges include international selections such as a South African shop bringing a taste of the savannah to customers, and specialist ranges such as the East India Company's speciality foods.

The Ocado own-label brand continues to grow in popularity with sales up over 60% year-on-year, and the average basket now containing over four Ocado own-label products. Towards the end of the year we started to introduce more tiering into our own brand products, as part of our programme to increase the choice for our customers.

The growth of our non-food range has continued through the period, with more customers adding an increasing proportion of non-food items to their basket. This reflects the appeal to customers of having non-food products delivered in the same convenient one hour time slot as their groceries.

We soft launched the first of our destination sites, Fetch, our pet store, during the period, with the roll out to all of our customers to be completed over the next few months. Fetch is a highly curated specialist pet store

with over 6,000 products, including premium pet food and medicinal products such as Hill's, James Wellbeloved, Frontline and Drontal. Again, delivery of items from Fetch can be conveniently delivered alongside customers' weekly grocery orders. We plan to launch further destination sites, with the first during 2014.

Our Low Price Promise ("LPP") basket matching initiative continues to resonate well with our customers, reflecting the competitiveness of our prices and adding transparency to our pricing strategy. By the end of the period, when checking for LPP, over 75% of our customers' baskets were already cheaper at Ocado, reflecting our competitiveness in prices and increased promotional activity.

Growing customer numbers and spend

Our efforts in improving the proposition to customers were reflected both in growing customer numbers and in customer satisfaction surveys, with YouGov BrandIndex results showing that we led our peers towards the end of the period.

Our active customers at the end of the period stood at 385,000 (2012: 355,000). Our focus on attracting more new customers continued through the period, with the rate of new customer acquisition over 40% up on the previous year. Our order growth from frequent shoppers has been stronger, with the number of frequent customers increasing over twice as quickly as the growth in active customers. We have placed less focus on occasional customers who typically are motivated by promotional vouchers and as a result the number of infrequent customers reduced as a proportion of our active customers as we reduced voucher activity.

While total marketing expenditure on attracting new customers has increased, our corresponding reduction in retention vouchering activities has seen overall marketing costs, including voucher spend, marginally down as a percentage of sales.

As we increase our range and the ease with which our customers can shop, it is more likely our customers will purchase more of their weekly requirements from us. Reflecting this trend our customers' average baskets stood at £113.53 (2012: £112.10).

Optimising operations

CFC1 continued to operate to a high level and with improved efficiency. Using the units per hour efficiency measure ("UPH"), the average productivity for the period in CFC1 was 135 UPH (2012: 121 UPH).

Order volumes have grown to an average of over 143,000 orders per week ("OPW") (2012: 123,000 OPW) with the highest number of orders delivered in a week exceeding 166,000 during the period. Following the opening of CFC2 in February, we have been executing an operational plan to migrate some orders to be fulfilled from Dordon. At the end of the period, approximately 60% of orders were fulfilled from CFC1 with the balance from CFC2, in line with our expectations.

While still in ramp up phase, CFC2 started to demonstrate its potential for improved efficiency and orders became cheaper to be picked from CFC2 than CFC1 during the second half of the year. The success of the ramp up of capacity utilisation in CFC2 gives us confidence in our ability to manage the additional throughput of products and orders from Morrisons.com.

We continue to introduce new developments to our CFCs to further improve efficiency in a cost effective manner. Our first purpose designed bagging machine, introduced into CFC1, is now an integrated part of the fulfilment operation in Hatfield, and we shall be investing in additional bagging machines during 2014.

Our delivery performance continued to improve benefiting from increased customer density, with deliveries per van per week ("DPV/week") of 160 (2012: 152 DPV).

Enhancing the capital efficiency of future capacity

CFC2, formally opened by Prime Minister Rt Hon David Cameron, MP in April, went live with the first customer orders picked on 24 February 2013, on time and on budget. We have been steadily ramping up this facility since then, with CFC2 reaching a peak during the period of approximately 60,000 OPW.

CFC2 opened with capacity for 120,000 OPW, and since opening we have committed to our Phase 2 development, which will take CFC2 capacity up to 180,000 to 190,000 OPW at a capital cost of £41 million over an 18 month period. Morrisons will pay for part of this capital cost under our agreement with them. During Phase 2 works, scheduled to be completed in the second half of 2014, there may be some short-term impact on UPH in 2014, while our long term efficiency target for CFC2 remains to exceed 200 UPH.

We also commenced operations at our NFDC in Welwyn Garden City, Hertfordshire, which we opened in January 2013. This will support the longer-term growth in non-food, our dedicated pet store, Fetch, and future destination sites.

As a result of our agreement with Morrisons, capacity in CFC2 will be utilised faster than had originally been planned. Consequently, during the coming year, we are likely to commit to the next CFC project to ensure that we continue to have sufficient fulfilment capacity to accommodate future growth. In addition, we

are looking at options to modularise future fulfilment capacity investments, to further improve our capital efficiency and potentially reduce the lead time to build. We anticipate providing further details on these plans during 2014.

We plan to invest further in CFC1 to increase capacity and to improve resilience. We intend to add to our spoke capacity with the opening of additional spoke locations next year, sharing both costs and capacity with Morrisons.

Anticipated capital expenditure in 2014 on capacity (CFCs, spokes and vehicles) is approximately £100 million, excluding expenditure on new CFCs. This includes our planned expenditure on new technology covered below.

Developing and leveraging our proprietary intellectual property ("**IP**")
Since inception we have utilised proprietary IP and technology as the foundation of our business. Maintaining and enhancing technology leadership in systems, processes and equipment supports our market-leading proposition to customers and drives operating excellence. This technology leadership affords us opportunities to generate significant value for Ocado through the commercialisation of our IP and operating knowledge. During the period we filed patents on a number of developments, with further patent filing in progress.

In May we announced our first strategic client for our IP and operating services with the signing of a 25 year agreement with Morrisons to launch and operate its new online grocery business, Morrisons.com. This agreement covers a number of arrangements which provide additional revenue and profit streams, improve our economic model with the sharing of capital and operational costs, deliver faster utilisation of capacity and more efficient scalability, strengthen our balance sheet and enable greater investment in Research and Development ("R&D") in the future.

On 18 July, shareholder approval, as required under the Listing Rules, was obtained for these arrangements to be concluded. Consequently, a 25 year sale and leaseback of the Dordon CFC and related Mechanical Handling Equipment ("MHE") was concluded, together with the payment of initial contract revenues resulting in the inflow of approximately £170 million.

Following significant preparation work, we were pleased that Morrisons.com was launched as planned with the first orders delivered on 10 January 2014.

Ocado's rights and obligations to source products (including Waitrose own-label products) from Waitrose remain unaffected by these arrangements.

In addition to the direct benefits to Ocado of this agreement, we consider it a strong validation of Ocado's operating model, providing a unique solution for the challenges faced by grocery retailers worldwide as the online channel continues to increase in importance. It also endorses the commercial value of our IP and operating knowledge, providing a template for future deals. We are expanding our IT team, and expect to increase the number of developers and other IT staff by around 50% by the end of 2014. The primary focus will be on re-platforming of our IT systems to enable the faster replication and roll out for international expansion, the rapid improvement of customer interfaces and other projects to drive efficiency in both our operations and central teams.

Market backdrop
While there appears to be a more positive outlook for broader economic growth in the UK, we believe this has yet to translate into sustained improvements in consumer spending and the broader consumer environment remains subdued.

However, the market for online grocery shopping continues to expand, evidenced by the online growth figures reported across the industry, as more consumers see the benefits of doing their grocery shopping from the comfort of their own homes. All the major UK supermarket groups are now investing to satisfy this growing demand, with a general acceptance that online will become a significant channel in grocery shopping. Overseas there continues to be more interest and investment in online services in many markets, including by major incumbent supermarket groups seeking to address this structural shift and by online retailers, such as the expansion of Amazon Fresh in the US.

People, **recognition and awards**
Having created over 1,000 jobs during the year, by the end of the period we employed over 6,700 people and their energy and commitment remain central to our success. I wish to acknowledge their tremendous efforts throughout this very busy period. Once again, our customers regularly commented on the outstanding service provided by our delivery team of over 2,500 Customer Service Team Members.

With our own growth and with the agreement to provide services to Morrisons.com, we anticipate total employee numbers to rise by around 1,000 during 2014.

We were delighted to be recognised with a number of awards during 2013, including the World's Best Online Retailer by the Grocer (The World's 50 Best Grocers), the Best Online Grocer by Which? (Members Annual Satisfaction Survey), and Supermarket of the Year in the Loved by Parents Awards.

We also won awards for our user experience including the Grocer 33 Best Mobile Shopping Experience, and for our Ocado own-label products. These included the Loved by Parents Best Grocery Product for our Ocado own-label organic vegetable boxes, and Gold Star Awards from the Great Taste Awards for a number of Ocado own-label products.

We received recognition for our continuing efforts in Corporate Social Responsibility ("CSR") from the International CSR Excellence Awards (Gold Award for Corporate Social Responsibility) and the World CSR Awards (Gold Award for Environmental Responsibility).

Board update

Further to his appointment to the Board as an independent Non-Executive Director and Chairman Designate in March 2013, Sir Stuart Rose assumed the role of Chairman following our AGM on 10 May 2013. Lord Grade retired as a Non-Executive Director and Chairman at the AGM.

Reporting, current trading and outlook

As the contribution from the Morrisons agreement becomes more material, we plan to provide segmental reporting, but have not provided this for 2013 as it is not material to the results. We have given the key metrics including total sales and ratios for margins and costs for Ocado.com (including Fetch) to facilitate analysis of underlying trends and our business model. We have also provided information on cash flow and debt on an "external" basis, thus removing the impact of the finance lease from our asset holding joint venture with Morrisons.

We finished the year with annual growth in gross sales for Ocado.com of 17.2% year-on-year. This includes the benefits of a sustained period of significant increase in customer growth year-on-year. In 2014, we expect to grow broadly in line with, or slightly ahead of, the market.

Chief Financial Officer's review

For the period to 1 December 2013 Ocado delivered enhanced sales growth driven by improvements to the proposition to customers and growth in the number of new customer acquisitions, and supported by increased capacity from CFC2. Operating profitability in the period was lower than the previous year because of an increase in depreciation and amortisation from the opening of CFC2. This offset gains from better operational efficiency and from the Morrisons agreement. As the utilisation of CFC2 increases we expect it to become a net contributor to profitability.

The current year results comprise 52 weeks, the prior year comprised 53 weeks. For comparison purposes a summary of the financial performance in 2012 on a 52 week basis excluding the first trading week is also provided below and all year-on-year movement data referred to below is on a 52 week basis unless stated otherwise.

	52 Weeks 2013 £m	52 Weeks 2012 £m	53 Weeks 2012 £m	52 Weeks Variance %
Gross sales	852.4	719.0	731.9	18.6%
Revenue	792.1	666.6	678.6	18.8%
Gross profit	247.5	203.4	207.3	21.7%
EBITDA (pre-exceptional)	45.8	33.9	34.5	35.1%
Operating profit before share of result from JV and exceptional items	1.0	5.3	5.4	
Share of result from JV	0.9	-	-	
(Loss)/profit before tax before exceptional items [1]	(5.1)	1.8	1.8	
Exceptional items [1]	(7.4)	(2.3)	(2.4)	
Loss before tax	(12.5)	(0.5)	(0.6)	

1. Exceptional items include exceptional finance costs

Sales

Gross sales increased by 18.6% (53 week basis: 16.5%) to £852.4 million for the period. Gross sales from retail related activities were £843.0 million, an increase of 17.2%. Sales growth continued to be driven by rising demand with average orders per week of 143,000 up from 123,000 in 2012 and the average order size of £113.53 up from £112.10 in 2012.

The Morrisons agreement contributed £9.4 million of gross sales in 2013. This comprises annual fees for services, IT support and R&D and a recharge of relevant variable and fixed costs and management fees.

Revenue grew by 18.8% (53 week basis: 16.7%) to £792.1 million. There was a change in marketing focus from the second half of 2012 which involved more tailored voucher activity targeted at acquiring new customers rather than reactivating lapsed customers and greater emphasis on marketing initiatives targeted at our existing customers including Low Price Promise, our basket price matching scheme. In addition there was an increase in promotional activity and further growth in our product range. The change in marketing activity resulted in an overall decrease in voucher spend in the period, down from 1.7% of revenue in 2012 to 1.2% of revenue in 2013. This impacts on year-on-year growth in gross sales as marketing vouchers are included in the definition of gross sales but excluded from the definition of revenue.

Gross profit

Gross profit rose by 21.7% year-on-year to £247.5 million. Gross margin was 31.2% of revenue (2012: 30.5%), ahead of 2012 predominantly due to additional Morrisons gross profit. Average product wastage in 2013 was 1.0% of retail revenue (2012: 0.7%). Wastage costs were higher in the first six months of operations at CFC2 but in the final quarter overall product wastage was 0.7% of retail revenue in line with 2012.

Other income increased to £23.1 million, reflecting a 40.0% increase on 2012. Media income of £18.5 million was 2.4% of retail revenue (2012: 2.3%). Supplier demand for website related activities has grown slightly ahead of the rate of increase in revenue due to the benefits of scale and a wider product range. Other income also included £3.9 million of rental income arising from the leasing arrangements with Morrisons for CFC2.

Operating profit

Operating profit before share of result from JV and exceptional items ("adjusted operating profit") for the period was £1.0 million, compared with £5.3 million in 2012. The opening of CFC2 increased depreciation costs by £9.6 million in the period.

At £200.0 million, distribution costs increased by 20.1% compared to 2012 and increased as a percentage of revenue from 25.0% in 2012 to 25.2% in the current period. Distribution costs, excluding depreciation, as a percentage of Group revenue have decreased from 22.1% in 2012 to 21.6% of revenue in the current period. Operational efficiencies were achieved through year-on-year improvements in UPH of 12.2% in CFC1, improvements in the number of deliveries per van per week due to increased number of deliveries in an unchanged geographic area and increased utilisation of the existing spoke network. CFC2 efficiency steadily improved during the year and increased utilisation of CFC2 capacity during 2014 will offset the increase in depreciation costs driven by CFC2.

Administrative expenses, including marketing and depreciation costs were £69.6 million, an increase of 44.7% year-on-year, and as a percentage of revenue was 8.8% (2012: 7.2%).

Administrative expenses	52 Weeks 2013 £m	52 Weeks 2012 £m	53 Weeks 2012 £m	52 Weeks Variance %
Central costs	44.9	32.4	32.9	38.6%
Depreciation and amortisation	14.6	9.2	9.2	58.7%
Marketing costs (excluding vouchers)	10.1	6.5	6.7	55.4%
Total administrative expenses	**69.6**	**48.1**	**48.8**	**44.7%**

Administration central costs include the implementation of new senior management long-term incentive schemes, which when combined with a higher payment for annual incentives due to the improved performance of the business, increased costs by £5.5 million in 2013. Excluding the senior management incentive costs, the administration central costs increased year-on-year by 21.8% driven by additional payroll costs, in particular in Technology and Non-Food, and as a percentage of revenue was 5.0% (2012: 4.9%). Depreciation and amortisation costs were £14.6 million, an increase of 58.7% year-on-year as a consequence of the increased investment in computer hardware and software required for the development of CFC2 and NFDC. Marketing costs excluding voucher spend were £10.1 million, an increase of 55.4% year-on-year due to the switch from retention vouchering activities, which were netted off against revenue, to advertising and acquisition marketing activities in the period.

Share of results from joint venture

MHE JV Co Limited ("MHE JV Co") was incorporated in the period, with Ocado owning a 50% equity interest in this entity. The Group entered into a 25 year sale and leaseback transaction of its MHE relating to CFC2, as part of the Morrisons agreement. The MHE was sold to MHE JV Co and Ocado received £58.0 million and a 50% share of MHE JV Co. The Group share of MHE JV Co profit after tax in the period amounted to £0.9 million.

Exceptional items

Exceptional items of £7.4 million included costs relating to the pre-opening costs for CFC2 and NFDC, legal and professional fees associated with the Morrisons agreement and the write off of capitalised arrangement fees in relation to the credit facility that was repaid during the year. There was also an exceptional credit of £0.2 million relating to a reduced impairment charge for a former spoke site in Coventry which has now been leased to a third party.

Net finance costs

Net finance costs (excluding exceptional items) were £7.0 million (2012 53 week basis: £3.6 million). Interest costs of £1.9 million relating to loans for the construction and fit-out of CFC2 were charged to the income statement following the opening of CFC2; these costs had been capitalised prior to opening. The sale and leaseback arrangement MHE JV Co accounted for increased interest costs of £1.9 million in 2013.

Loss before tax

Adjusted (excluding exceptional costs) loss before tax for the period was £(5.1) million (2012 53 week basis: profit of £1.8 million). Loss before tax for the period was £(12.5) million (2012 53 week basis: loss of £(0.6) million).

Taxation

Due to the availability of capital allowances and Group loss relief, the Group did not pay corporation tax during the year. No deferred tax credit was recognised in the period. Ocado has approximately £279.5 million of unutilised carried forward tax losses at the end of the period.

Loss per share

Basic and diluted loss per share increased from 0.46p to 2.16p.

Capital expenditure and cash flow

During the year Ocado completed the construction of CFC2 and NFDC. On 25 July 2013 Ocado sold the company owning the land and buildings at CFC2 to Morrisons and the MHE at CFC2 to MHE JV Co, both of which are leased back over 25 years.

Reported additions to tangible and intangible assets for the period of £188.4 million included the £112.1 million leaseback of the MHE assets. Capital expenditure for the period, excluding the effects of this transaction are noted below:

	52 Weeks 2013 £m	53 Weeks 2012 £m
CFC1	5.9	15.6
CFC2	38.0	80.4
Delivery	10.8	8.9
Technology	14.1	14.4
Other	7.5	5.2
Total capital expenditure[1] (excluding sale & leaseback)	**76.3**	**124.5**

1. Capital expenditure includes tangible and intangible assets

Investment in CFC1 capital expenditure was £5.9 million on both capacity and resiliency projects, a lower rate versus 2012 due to completion of a number of large projects.

In the period we opened CFC2 and incurred a further £38.0 million capital expenditure to bring CFC2 into operation. This site was opened on time, on budget and with an initial capacity of approximately 120,000 OPW and work continues to increase the capacity to over 180,000 OPW.

Investment in new vehicles, which are typically on five year financing contracts, was £9.0 million (2012: £7.4 million) driven by business growth. The delivery capital expenditure also includes investments in new hand held terminals to support the growth in van numbers and spoke site costs for a new spoke to be opened in early 2014.

Ocado continues to invest in technology by developing its own software for activities which enable us to retain the intellectual property rights. In the period £10.4 million (2012: £11.5 million) of internal development costs were capitalised as intangible assets with a further £3.7 million (2012: £2.9 million) spent on computer hardware.

At 1 December 2013, capital commitments contracted, but not provided for by the Group, amounted to £28.8 million (2 December 2012: £43.4 million). We expect capital expenditure in 2014 to be approximately £100 million, before any investment in further CFCs, as we continue our investment to support our long term strategic goals.

Net operating cash flow after finance costs increased to £60.4 million, up 67.4% on a 53 week basis from £36.1 million in 2012 as detailed below:

	52 Weeks 2013 £m	53 Weeks 2012 £m
EBITDA	**45.8**	**34.5**
Working capital movement [1]	23.5	7.2
Exceptional items	(4.6)	(2.4)
Other non-cash items [2]	2.8	1.4
Finance costs paid [1]	(7.1)	(4.6)
Operating cash flow	**60.4**	**36.1**
Capital investment [1]	(77.5)	(100.9)
(Decrease)/Increase in net debt/finance obligations[3]	34.2	27.1
Proceeds from share issues net of transaction costs	3.8	35.1
Increase/(decrease) in cash and cash equivalents	**20.9**	**(2.6)**

1. Capital investment has been adjusted for £4.5 million of capitalised borrowing costs due to an adjustment in working capital and finance costs paid
2. Other non-cash items include movements in provisions, share of income from MHE JV Co and share based payment charges
3. Includes sale and leaseback of MHE assets to MHE JV Co

The overall improvement in the net operating cash flow was primarily driven by an increase in EBITDA and an improvement in working capital of £11.3 million and £16.3 million respectively. The working capital improvement reflected an increase in trade payables largely due to un-amortised proceeds from the upfront £29.7 million from Morrisons fees.

Balance sheet
The Group had cash and cash equivalents of £110.5 million at the period end (2012: £89.6 million).

Initial proceeds from the Morrisons agreement including cash deposits disposed of were £169.8 million. As a result of this agreement, the drawn element of the primary debt facility of £85.3 million was repaid in July 2013. At the same time a finance lease was created with MHE JV Co, the company jointly owned by Ocado and Morrisons, to lease back the MHE at CFC2.

Gross debt at the period end was £161.4 million (2012: £144.8 million). External gross debt at the period end, excluding the £112.7 million finance lease payable to MHE JV Co, was £48.7 million (2012: £144.8 million).

Key performance indicators
The following table sets out a summary of selected unaudited operating information for 2013 and 2012:

	52 Weeks 2013 (unaudited)	52 Weeks 2012 (unaudited)	52 Weeks Variance %[5]
Average orders per week	143,000	123,000	15.8%
Average order size (£) [1]	113.5	112.1	1.3%
CFC1 efficiency (units per hour) [2]	135	121	12.2%

Average deliveries per van per week (DPV/week)	160	152	5.8%
Average product wastage (% of revenue) [3]	1.0	0.7	0.3%
Items delivered exactly as ordered (%) [4]	99.0	98.0	1.0%
Deliveries on time or early (%)	95.2	92.7	2.4%

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.
2 Measured as units dispatched from the CFC per variable hour worked by CFC1 operational personnel.
3 Net value of products purged for having passed Ocado's "use by" life guarantee post any recovery income, divided by revenue.
4 Percentage of all items delivered exactly as ordered, i.e. the percentage of items neither missing nor substituted.
5 Percentage change based on unrounded numbers.

Consolidated income statement (unaudited)
for the 52 weeks ended 1 December 2013

	Notes	52 weeks ended 1 December 2013 £m	53 weeks ended 2 December 2012 £m
Revenue	2.2	792.1	678.6
Cost of sales		(544.6)	(471.3)
Gross profit		247.5	207.3
Other income		23.1	16.7
Distribution costs		(200.0)	(169.8)
Administrative expenses		(69.6)	(48.8)
Operating profit before share of result from joint venture and exceptional items		1.0	5.4
Share of result from joint venture	5.2(b)	0.9	-
Exceptional items	2.4	(4.6)	(2.4)
Operating (loss)/profit		(2.7)	3.0
Finance income	4.3	0.4	0.4
Finance costs	4.3	(7.4)	(4.0)
Exceptional finance costs	2.4	(2.8)	-
Loss before tax		(12.5)	(0.6)
Taxation		-	(1.8)
Loss for the period		(12.5)	(2.4)

Loss per share		pence	pence
Basic and diluted loss per share	2.3	(2.16)	(0.46)

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

	Notes	52 weeks ended 1 December 2013 £m	53 weeks ended 2 December 2012 £m

Operating (loss)/profit		(2.7)	3.0
Adjustments for:			
Depreciation of property, plant and equipment	3.2	33.1	22.8
Amortisation expense	3.1	9.5	6.2
Impairment of property, plant and equipment	3.2	0.5	0.1
Impairment of intangible assets	3.1	0.8	-
Exceptional items [1]	2.4	4.6	2.4
EBITDA		45.8	34.5

[1] Included within Exceptional items is a £0.2 million impairment reversal (see Note 2.4)

Consolidated statement of comprehensive income (unaudited)
for the 52 weeks ended 1 December 2013

	52 weeks ended 1 December 2013 £m	53 weeks ended 2 December 2012 £m
Loss for the period	(12.5)	(2.4)
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Cash flow hedges		
- Gains/(losses) arising on interest rate swaps	0.4	(0.4)
	0.4	(0.4)
Items that may be subsequently reclassified to profit or loss		
Cash flow hedges		
- Gains/(losses) arising on forward foreign exchange contracts	0.5	(1.8)
- (Gains)/losses transferred to property, plant and equipment	(0.3)	1.5
	0.2	(0.3)
Other comprehensive income for the period, net of tax	0.6	(0.7)
Total comprehensive income for the period	(11.9)	(3.1)

Consolidated balance sheet (unaudited)
as at 1 December 2013

	Notes	1 December 2013 £m	2 December 2012 £m
Non-current assets			
Intangible assets	3.1	27.0	21.6
Property, plant and equipment	3.2	224.3	280.3
Deferred tax asset		7.9	7.9
Available-for-sale financial asset		0.4	0.4
Investment in joint ventures	5.2(b)	58.9	-
		318.5	310.2

Current assets

Inventories		23.9	17.5
Trade and other receivables		45.2	30.8
Derivative financial instruments		-	0.2
Cash and cash equivalents		110.5	89.6
		179.6	138.1
Total assets		498.1	448.3
Current liabilities			
Trade and other payables		(130.0)	(94.1)
Borrowings	4.1	(3.3)	(2.6)
Obligations under finance leases	4.1	(25.0)	(19.8)
Derivative financial instruments		(0.2)	(0.7)
Provisions		(0.5)	(0.4)
		(159.0)	(117.6)
Net current assets		20.6	20.5
Non-current liabilities			
Borrowings	4.1	(6.2)	(91.3)
Obligations under finance leases	4.1	(126.9)	(31.1)
Provisions		(3.2)	(2.2)
Deferred tax liability		(0.4)	(0.4)
		(136.7)	(125.0)
Net assets		202.4	205.7
Equity			
Share capital	4.4	12.4	12.3
Share premium	4.4	251.5	247.8
Treasury shares reserve	4.4	(52.4)	(53.9)
Reverse acquisition reserve	4.4	(116.2)	(116.2)
Other reserves	4.4	(0.1)	(0.7)
Retained earnings		107.2	116.4
Total equity		202.4	205.7

Consolidated statement of cash flows (unaudited) for the 52 weeks ended 1 December 2013

	Notes	52 weeks ended 1 December 2013 £m	53 weeks ended 2 December 2012 £m
Cash flows from operating activities			
Loss before tax		(12.5)	(0.6)
Adjustments for:			
- Depreciation, amortisation and impairment losses	3.1, 3.2	43.7	30.0
- Movement in provisions		0.6	-
- Share of profit in joint venture	5.2(b)	(0.9)	-
- Share-based payments charge		3.3	0.9
- Foreign exchange movements		-	(0.4)
- Net finance costs[1]	2.4, 4.3	9.8	3.6

Changes in working capital:		
- Movement in inventories	(6.4)	(3.2)
- Movement in trade and other receivables	(13.7)	6.8
- Movement in trade and other payables	43.6	3.6
Cash generated from operations	67.5	40.7
Interest paid[2]	(7.1)	(4.6)
Net cash flows from operating activities	60.4	36.1
Cash flows from investing activities		
Purchase of property, plant and equipment	(60.7)	(82.6)
Borrowing costs capitalised in property, plant and equipment[2]	(1.1)	(4.1)
Purchase of intangible assets	(15.7)	(14.2)
Interest received	0.3	0.4
Net cash flows from investing activities	(77.2)	(100.5)
Cash flows from financing activities		
Proceeds from the issue of ordinary share capital net of transaction costs	3.8	35.1
Proceeds from the sale and leaseback of property, plant and equipment	53.5	-
Proceeds from the sale and leaseback of intangible assets	4.4	-
Proceeds from borrowings	-	50.1
Repayment of borrowings	(2.5)	(2.8)
Proceeds from asset based financing arrangements	-	2.1
Repayments of obligations under finance leases	(21.6)	(20.9)
Settlement of forward foreign exchange contracts	0.1	(1.8)
Net cash flows from financing activities	37.7	61.8
Net increase/(decrease) in cash and cash equivalents	20.9	(2.6)
Cash and cash equivalents at the beginning of the period	89.6	92.1
Exchange adjustments	-	0.1
Cash and cash equivalents at the end of the period	110.5	89.6

1 This comprises finance income, finance costs and exceptional finance costs.

2 This has been presented separately in the current period to provide further information relating to interest paid and capitalised borrowing costs.

Consolidated statement of changes in equity (unaudited) for the 52 weeks ended 1 December 2013

	Notes	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 28 November 2011		11.2	213.8	(53.8)	(116.2)	-	117.9	172.9
Loss for the period		-	-	-	-	-	(2.4)	(2.4)
Other comprehensive income:								
Cash flow hedges								
- Losses arising on forward foreign exchange contracts		-	-	-	-	(1.8)	-	(1.8)

-	Losses arising on interest rate swaps		-	-	-	-	(0.4)	-	(0.4)
-	Losses transferred to property, plant and equipment		-	-	-	-	1.5	-	1.5
Total comprehensive expense for the period ended 2 December 2012			-	-	-	-	(0.7)	(2.4)	(3.1)
Transactions with owners:									
-	Issue of ordinary shares		1.1	35.0	-	-	-	-	36.1
-	Disposal of treasury shares		-	(1.0)	-	-	-	-	(1.0)
-	Share-based payments charge		-	-	-	-	-	0.9	0.9
-	Reacquisition of interest in treasury shares		-	-	(0.1)	-	-	-	(0.1)
Total transactions with owners			1.1	34.0	(0.1)	-	-	0.9	35.9
Balance at 2 December 2012			12.3	247.8	(53.9)	(116.2)	(0.7)	116.4	205.7
Loss for the period			-	-	-	-	-	(12.5)	(12.5)
Other comprehensive income:									
Cash flow hedges									
-	Gains arising on forward foreign exchange contracts	4.4(b)	-	-	-	-	0.5	-	0.5
-	Gains arising on interest rate swaps	4.4(b)	-	-	-	-	0.4	-	0.4
-	Gains transferred to property, plant and equipment	4.4(b)	-	-	-	-	(0.3)	-	(0.3)
Total comprehensive expense for the period ended 1 December 2013			-	-	-	-	0.6	(12.5)	(11.9)
Transactions with owners:									
-	Issue of ordinary shares	4.4	0.1	3.7	-	-	-	-	3.8
-	Share-based payments charge		-	-	-	-	-	3.3	3.3
-	Disposal of treasury shares		-	-	1.5	-	-	-	1.5
Total transactions with owners			0.1	3.7	1.5	-	-	3.3	8.6
Balance at 1 December 2013			12.4	251.5	(52.4)	(116.2)	(0.1)	107.2	202.4

Notes to the consolidated financial information

Section 1 - Basis of preparation

General information

Ocado Group plc is a public limited company incorporated in the United Kingdom. The registered office is Titan Court, 3 Bishops Square, Hatfield Business Park, Hatfield, Hertfordshire, AL10 9NE.

The financial information comprises the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of cash flows, consolidated statement of changes in equity and the related notes. The financial information for the 52 weeks ended 1 December 2013 is extracted from the unaudited consolidated financial statements. The financial information for the 53 weeks ended 2 December 2012 is derived from the statutory accounts.

The financial information in this preliminary results announcement does not constitute the Group's statutory accounts for the 52 weeks ended 1 December 2013 or the 53 weeks ended 2 December 2012 and does not constitute full accounts within the meaning of section 435 (1) and (2) of the Companies Act 2006. The statutory accounts for 2012 have been delivered to the Registrar of Companies, and those for 2013 will be delivered in due course. The auditors have reported on the statutory accounts for the 53 weeks ended 2 December 2012; their report was (i) unqualified, (ii) did not include a reference to a matter to which the auditors drew attention by way of an emphasis of matter without qualifying their report and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006. The statutory accounts for the 52 weeks ended 1 December 2013, on which the auditors have not yet reported, will be finalised on the basis of the financial information presented by the Directors in this announcement and will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

The financial year represents the 52 weeks ended 1 December 2013 (the prior financial year represents the 53 weeks ended 2 December 2012). The consolidated financial statements for the 52 weeks ended 1 December 2013 comprise the financial statements of Ocado Group plc (the "Company") and its subsidiaries (the "Group").

Basis of preparation

The financial information has been prepared in accordance with the Listing Rules and the Disclosure and Transparency Rules of the UK Financial Services Authority (where applicable), International Financial Reporting Standards ("IFRS") and International Financial Reporting Standards Interpretation Committee ("IFRS IC") interpretations as endorsed by the European Union ("IFRS-EU"), and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. Other than updating the full annual report and accounts for accounting policies associated with the transactions outlined in Note 5.2 or highlighted below, the accounting policies applied are consistent with those described in the annual report and financial statements for the 53 weeks ended 2 December 2012 of Ocado Group plc. The Company's auditors have confirmed that they are not aware of any matter that may give rise to a modification to their audit report.

The financial information is presented in sterling, rounded to the nearest hundred thousand unless otherwise stated. The financial information has 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 are satisfied that the Company and the Group as a whole have adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the financial information.

Standards, amendments and interpretations adopted by the Group in 2012/13, or issued but not yet effective, and which have been early adopted by the Group:

The Group has considered the following new standards, interpretations and amendments to published standards that are not yet effective for the Group for the financial year beginning 3 December 2012 and concluded that they would be early adopted and would not have a significant impact on the Group's financial statements:

- IFRS 10, "Consolidated Financial Statements"
- IFRS 11, "Joint Arrangements" [1]
- IFRS 12, "Disclosures of Interests in Other Entities"
- IAS 27 (revised 2011) "Separate Financial Statements"
- IAS 28 (revised 2011) "Investments in Associates and Joint Ventures"

[1] The Group is accounting for interest in joint ventures under the equity method of accounting, and do not deem IFRS 11 "Joint Arrangements" to have a material impact on the Group's financial statements

Standards, amendments and interpretations adopted by the Group in 2012/13, or issued but not yet effective, and which have not been early adopted by the Group:

The Group has considered the following new standards, interpretations and amendments to published standards that are effective for the Group for the financial year beginning 3 December 2012 and concluded

that they are either not relevant to the Group or that they would not have a significant impact on the Group's financial statements:

- IFRS 1 (amendments), "First-time adoption of International Financial Reporting Standards"
- IFRS 7 (amendment), "Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments"
- IFRS 9 (amendment), "Financial Instruments"
- IFRS 13, "Fair Value Measurement"
- IAS 1 (amendment), "Presentation of Financial Statements"
- IAS 16 (amendment), "Property, Plant and Equipment"
- IAS 19 (amendment), "Employee Benefits"
- IAS 32 (amendment), "Financial Instruments: Presentation"
- IAS 34 (amendment), "Interim Financial Reporting"
- IAS 39 (amendment), "Financial Instruments: Recognition and Measurement"

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 2012 and have not been early adopted:

- IFRS 2 (amendment), "Share-based Payment"
- IFRS 3 (amendment), "Business Combinations"
- IFRS 8 (amendment), "Operating Segments"
- IFRS 13, "Fair Value Measurement"
- IAS 16 (amendment), "Property, Plant and Equipment"
- IAS 19 (amendment), "Employee Benefits"
- IAS 24 (amendment), "Related Party Disclosures"
- IAS 36 (amendment), "Impairment of Assets"
- IAS 38 (amendment), "Intangible Assets"
- IAS 40 (amendment), "Investment Property"

Use of non-GAAP profit measures

The Directors believe that the EBITDA and adjusted profit before tax measures presented provide a clear and consistent presentation of the underlying performance of the Group. EBITDA and adjusted profit before tax are not measures of operating performance in accordance with IFRS-EU and may not be directly comparable with adjusted profit measures used by other companies.

The Group defines EBITDA as earnings before interest, taxation, depreciation of property, plant and equipment, amortisation expense, impairment of property, plant and equipment, intangibles and exceptional items. The adjustments made to reported loss before tax are set out below the income statement.

Section 2 - Results for the year

2.1 Segmental reporting

The Group's principal activities are grocery retailing and the development and monetisation of IP and technology used for the online retailing, logistics and distribution of grocery and consumer goods, currently derived solely from the UK. The Group is not reliant on any major customer for 10% or more of its revenue.

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

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

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

2.2 Gross sales

A reconciliation of revenue to gross sales is as follows:

	52 weeks ended 1 December 2013	53 weeks ended 2 December 2012
	£m	£m

Revenue	792.1	678.6
VAT	50.4	41.9
Marketing vouchers	9.9	11.4
Gross sales	852.4	731.9

2.3 Loss per share

Basic loss per share is calculated by dividing the loss attributable to equity holders of the parent by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares held pursuant to the Group's Joint Share Ownership Scheme (the "JSOS") 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 of all dilutive potential shares. The Company has two categories of potentially dilutive shares, namely share options and shares held pursuant to the JSOS.

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

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

	52 weeks ended 1 December 2013 Number of shares (million)	53 weeks ended 2 December 2012 Number of shares (million)
Issued shares at the beginning of the period, excluding treasury shares	578.3	522.1
Effect of share options exercised in the period	1.4	0.3
Effect of treasury shares disposed of in the period	0.3	-
Effect of shares issued in the period	-	0.9
Weighted average number of shares at the end of the period	580.0	523.3
	£m	£m
Loss attributable to the owners of the Company	(12.5)	(2.4)
	pence	pence
Basic and diluted loss per share	(2.16)	(0.46)

2.4 Exceptional items

	52 weeks ended 1 December 2013 £m	53 weeks ended 2 December 2012 £m
Set up costs		
- CFC2	1.3	1.2
- Non-food	0.2	0.3
Impairment (reversal)/charge	(0.2)	0.9
Strategic operating agreement		
- Legal and professional fees	3.3	-
- Exceptional finance costs	2.8	-
	7.4	2.4

Set up costs

During the year, the Group incurred further costs relating to the set-up of CFC2 of £1.3 million (2012: £1.2 million), which first delivered customer orders in February 2013, and officially went live in March 2013, and the set-up of the NFDC of £0.2 million (2012: £0.3 million) which went live in January 2013.

Impairment of assets

As part of the review of the land, building and plant and machinery related to the Coventry spoke site, an impairment reversal of £0.2 million was identified.

In the prior year, land, buildings and plant and machinery with a net book value of £0.9 million were impaired due to these assets being superseded by CFC2.

Strategic operating agreement

In the current year, we announced our first strategic client for our Intellectual Property ("IP") and operating services with the signing of a 25 year agreement with Morrisons. To facilitate the finalisation of the agreement, a number of one-off costs were incurred by the Group which reflect services from professional advisors. The agreement also enabled repayment of our £100 million loan facility which resulted in the full amortisation of the prepaid arrangement fees from 2012.

These one-off costs incurred amounted to £6.1 million. Further disclosure relating to the strategic operating agreement can be found in Note 5.2.

Section 3 - Operating assets and liabilities

3.1 Intangible assets

	Internally generated assets £m	Other intangible assets £m	Total intangible assets £m
Cost			
At 27 November 2011	30.2	14.8	45.0
Additions	-	0.9	0.9
Internal development costs capitalised	13.6	-	13.6
Disposals	-	(2.1)	(2.1)
At 2 December 2012	43.8	13.6	57.4
Cost			
At 2 December 2012	43.8	13.6	57.4
Additions	8.3	0.9	9.2
Internal development costs capitalised	15.1	-	15.1
Disposals	(9.2)	(1.1)	(10.3)
At 1 December 2013	58.0	13.4	71.4
Accumulated amortisation			
At 27 November 2011	(19.4)	(12.3)	(31.7)
Charge for the period	(5.3)	(0.9)	(6.2)
Impairment	-	-	-
Disposals	-	2.1	2.1
At 2 December 2012	(24.7)	(11.1)	(35.8)
Accumulated amortisation			
At 2 December 2012	(24.7)	(11.1)	(35.8)
Charge for the period	(8.6)	(0.9)	(9.5)
Impairment	(0.8)	-	(0.8)
Disposals	0.8	0.9	1.7
At 1 December 2013	(33.3)	(11.1)	(44.4)
Net book value			
At 2 December 2012	19.1	2.5	21.6

At 1 December 2013	24.7	2.3	27.0

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

	1 December 2013 £m	2 December 2012 £m
Cost	12.8	4.3
Accumulated amortisation	(4.8)	(2.9)
Net book value	8.0	1.4

During the year, the Group entered into a sale and 25 year leaseback transaction with a newly created joint venture, MHE JV Co. Of the current period disposals of £10.3 million, £8.5 million relates to the sale of assets to MHE JV Co, of which £8.5 million were leased back and are included in total additions of £9.2 million.

For the 52 weeks ended 1 December 2013, internal development costs capitalised represented approximately 94% (2012: 94%) of expenditure on intangible assets and 12% (2012: 11%) of total capital spend including property, plant and equipment.

3.2 Property, plant and equipment

	Land and buildings £m	Fixtures, fittings, plant and machinery £m	Motor vehicles £m	Total £m
Cost				
At 27 November 2011	97.4	175.0	31.6	304.0
Additions	20.4	82.8	6.8	110.0
Disposals	-	(0.4)	(4.3)	(4.7)
At 2 December 2012†	117.8	257.4	34.1	409.3
Additions[1]	5.1	149.8	9.1	164.0
Disposals[1]	(80.6)	(110.4)	(4.3)	(195.3)
At 1 December 2013†	42.3	296.8	38.9	378.0
Accumulated depreciation and impairment				
At 27 November 2011	(12.7)	(83.3)	(13.9)	(109.9)
Charge for the period	(1.7)	(15.3)	(5.8)	(22.8)
Impairment	(0.8)	(0.2)	-	(1.0)
Disposals	-	0.4	4.3	4.7
At 2 December 2012	(15.2)	(98.4)	(15.4)	(129.0)
Charge for the period	(2.0)	(24.2)	(6.9)	(33.1)
Impairment	0.2	(0.5)	-	(0.3)
Disposals	0.3	4.1	4.3	8.7
At 1 December 2013	(16.7)	(119.0)	(18.0)	(153.7)
Net book value				
At 2 December 2012	102.6	159.0	18.7	280.3
At 1 December 2013	25.6	177.8	20.9	224.3

† Cost includes capitalised borrowing costs of £1.9 million (2012: £4.8 million). The reduction was due to the sale of CFC2 land and building which included £4.0 million of capitalised borrowing costs. The capitalisation rate for both periods was the same as that incurred on the underlying borrowings, being LIBOR plus 3%. Borrowing costs were capitalised on specific borrowings which were wholly attributable to qualifying assets.

[1] During the year, the Group entered into a sale and 25 year leaseback transaction of its MHE relating to CFC2 to a newly created joint venture, MHE JV Co. Of the current period disposals of £195.3 million, £115.2 million relates to the sale of assets to MHE JV Co, £112.1 million of which were leased back and are included in total additions of £164.0 million.

Of the current period impairment charge, a reversal of £0.2 million has been included within exceptional costs (see Note 2.4).

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 2012				
Cost	26.9	69.6	33.4	129.9
Accumulated depreciation and impairment	(13.3)	(43.9)	(14.9)	(72.1)
Net book value	13.6	25.7	18.5	57.8
At 1 December 2013				
Cost	29.3	171.9	38.1	239.3
Accumulated depreciation and impairment	(14.8)	(56.6)	(17.5)	(88.9)
Net book value	14.5	115.3	20.6	150.4

The movement in cost includes assets of £1.7 million (2012: £2.1 million) reclassified from owned assets to assets held under finance leases following asset based financing arrangements.

Included within property, plant and equipment is capital work-in-progress for land and buildings of £0.1 million (2012: £77.7 million) and capital work-in-progress for fixtures, fittings, plant and machinery of £5.2 million (2012: £80.0 million).

Property, plant and equipment with a net book value of £14.0 million (2012: £135.1 million) has been pledged as security for the secured loans (Note 4.1).

Section 4 - Capital structure and financing costs

4.1 Borrowings and finance leases

Borrowings

	Less than one year	Between one year and two years	Between two years and five years	Total
	£m	£m	£m	£m
As at 2 December 2012				
Secured loans	2.6	10.1	81.2	93.9
Total borrowings	2.6	10.1	81.2	93.9
As at 1 December 2013				
Secured loans	3.3	4.0	2.2	9.5
Total borrowings	3.3	4.0	2.2	9.5

Secured loans

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

Principal amount	Inception	Secured over	Current interest rate	Instalment frequency	Final payment due	Carrying amount as at 1 December 2013	Carrying amount as at 2 December 2012
£m						£m	£m
8.0	May-07	Property, plant and equipment	Clearing bank base rate + 3.0%	Quarterly	Feb-15	2.4	3.6

1.5	Dec-06	Freehold property	LIBOR + 2.75%	Quarterly	Feb-15	0.5	0.7
1.5	Feb-09	Freehold property	LIBOR + 2.75%	Quarterly	Feb-15	0.8	0.9
2.8	Dec-09	Freehold property	LIBOR + 3.5%	Quarterly	Jan-13	1.7	2.1
2.6	Jul-12	Freehold property	LIBOR + 2.75%	Quarterly	Jul-15	2.2	2.5
85.3	Jul-10	Property, plant and equipment	LIBOR + 3.5%	Note †	n/a	-	81.8
2.5	Jul-12	Property, plant and equipment	9.12% ††	Monthly	Jul-17	1.9	2.3
						9.5	93.9
Disclosed as:							
Current						3.3	2.6
Non-current						6.2	91.3
						9.5	93.9

† During the period, £85.3 million being the full amount outstanding on the £100 million credit facility of the Group was repaid and the facility was cancelled. Of this amount, £80.0 million was paid by Morrisons on the disposal of Last Mile Developments Limited ("LMD") which is detailed further in Note 5.2(a), and the balance was repaid as part of the sale and leaseback transaction for the MHE in CFC2.

†† Calculated as the effective interest rate, the calculations of which includes an optional balloon payment at the end of the term.

Obligations under finance leases

	1 December 2013 £m	2 December 2012 £m
Obligations under finance leases due:		
Within one year	25.0	19.8
Between one and two years	20.7	11.5
Between two and five years	46.3	13.8
After five years	59.9	5.8
Total obligations under finance leases	151.9	50.9

The total obligations under finance leases include obligations of £112.7 million payable to MHE JV Co, a joint venture company.

	1 December 2013 £m	2 December 2012 £m
Minimum lease payments due:		
Within one year	31.9	22.2
Between one and two years	26.8	13.1
Between two and five years	59.4	16.0
After five years	67.6	6.4
	185.7	57.7
Less: future finance charges	(33.8)	(6.8)
Present value of finance lease liabilities	151.9	50.9
Disclosed as:		
Current	25.0	19.8
Non-current	126.9	31.1
	151.9	50.9

4.2 Analysis of net debt

(a) Net debt

	Notes	1 December 2013 £m	2 December 2012 £m
Current assets			
Cash and cash equivalents		110.5	89.6
Current liabilities			
Borrowings	4.1	(3.3)	(2.6)
Obligations under finance leases	4.1	(25.0)	(19.8)
		(28.3)	(22.4)
Non-current liabilities			
Borrowings	4.1	(6.2)	(91.3)
Obligations under finance leases	4.1	(126.9)	(31.1)
		(133.1)	(122.4)
Total net debt		(50.9)	(55.2)

Net cash, excluding obligations of £112.7 million to MHE JV Co, a joint venture company, is £61.8 million.

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

	1 December 2013 £m	2 December 2012 £m
Net increase/(decrease) in cash and cash equivalents	20.9	(2.6)
Exchange adjustments	-	0.1
Net (increase)/decrease in debt and lease financing	24.1	(28.5)
Non-cash movements:		
- Assets acquired under finance lease	(122.4)	(7.5)
- Debt settled by third party	85.3	-
- Net movement in arrangement fees charged against loans	(3.6)	2.5
Movement in net debt in the period	4.3	(36.0)
Opening net debt	(55.2)	(19.2)
Closing net debt	(50.9)	(55.2)

Debt settled by third party relates to the disposal of LMD to Morrisons. See Note 5.2(a) for further information.

4.3 Finance income and costs

	52 weeks ended 1 December 2013 £m	53 weeks ended 2 December 2012 £m
Interest on cash balances	0.4	0.4
Other interest	-	-
Finance income	0.4	0.4
Borrowing costs		
- Bank loans and overdrafts	-	-
- Obligations under finance leases	(4.7)	(3.1)

- Borrowings	(3.6)	(4.9)
Capitalised borrowing costs	1.1	4.1
Foreign exchange gains	-	-
Fair value movement in derivative financial instruments	(0.2)	(0.1)
Unwinding of discount	-	-
Finance costs	(7.4)	(4.0)
Net finance costs	(7.0)	(3.6)

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

4.4 Share capital and reserves

Share capital and reserves

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

	Ordinary shares	Ordinary shares	Share premium
	Number of shares (million)	£m	£m
At 2 December 2012	614.6	12.3	247.8
Issues of ordinary shares	3.1	0.1	3.7
Ordinary shares issue cost	-	-	-
Allotted in respect of executive share ownership scheme	-	-	-
At 1 December 2013	617.7	12.4	251.5

Included in the total number of ordinary shares outstanding above is 35,249,176 (2012: 36,305,099) ordinary shares held by the Group's employee benefit trust (see Note 4.4(a)). The ordinary shares held by the trustee of the Group's employee benefit trust pursuant to the joint share ownership scheme are accounted for as treasury shares in the Group's consolidated balance sheet in accordance with IAS 32 "Financial Instruments: Presentation". These ordinary shares have voting rights but these have been waived by the trustee. The number of allotted, called up and fully paid shares, excluding treasury shares, at the end of each period differs from that used in the loss per share calculation in Note 2.3 as loss per share is calculated using the weighted average number of ordinary shares in issue during the period, excluding treasury shares.

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

		Treasury shares reserve	Reverse acquisition reserve	Fair value reserve
	Notes	£m	£m	£m
At 2 December 2012		(53.9)	(116.2)	(0.7)
Reacquisition of interest in treasury shares	4.4(a)	-	-	-
Fair value movement on derivative financial instruments	4.4(b)	-	-	0.6
Translation of foreign subsidiary	4.4(b)	-	-	-
Disposal of treasury shares	4.4(a)	1.5	-	-
At 1 December 2013		(52.4)	(116.2)	(0.1)

(a) Treasury shares reserve

This reserve arose when the Group issued equity share capital under its JSOS, which is held in trust by the trustee of the Group's employee benefit trust. 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; unvested interests of leavers which have been reacquired by the Group's employee benefit trust during the period are now accounted for as treasury shares.

(b) Fair value reserve

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

Section 5 - Other notes

5.1 Related party transactions

Key management personnel

The key management personnel of the Group are Executive Directors and Non-Executive Directors. The key management compensation is as follows:

	1 December 2013 £m	2 December 2012 £m
Salaries and other short-term employee benefits	3.6	1.4
Share-based payments	6.4	0.1
	10.0	1.5

The share based payment charge in 2013 was for the notional gain on the date of vesting for the two tranches of the existing JSOS which vested during the financial year. There was no cash cost during the year and the share awards remain unexercised.

Other related party transactions with key management personnel made during the period related to the purchase of professional services and amounted to £11,000 (2012: £8,000). 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 key management personnel did not owe the Group any amounts (2012: £27,000). The prior period amount arose in periods before relevant directorships were obtained.

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 in which the Group holds a 25% interest:

	1 December 2013 £m	2 December 2012 £m
Purchase of goods		
- Plant and machinery	0.1	0.1
- Consumables	0.9	0.2
	1.0	0.3

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 £4.0 million (2012: £3.0 million).

At period end, the Group owed Paneltex £33,000 (2012: £23,000).

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

	1 December 2013 £m
Sale and leaseback transaction	
Sale of assets to MHE JVCo Limited	116.0
Leaseback of assets from MHE JVCo Limited	112.1
Finance lease payment	0.3

Included within trade and other receivables is a balance of £12.3 million owed by MHE JV Co.

Included within trade and other payables is a balance of £8.4 million owed to MHE JV Co.

Included within obligations under finance leases is a balance of £112.7 million owed to MHE JV Co.

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

5.2 Strategic operating agreement

During the period, the Group entered into a 25 year agreement with its first strategic client, Morrisons, to provide it with IP and operating services to help launch and operate its online grocery business. This agreement with Morrisons comprised a number of steps in order to facilitate the deal, of which the major components are outlined below.

5.2(a) Sale of Last Mile Developments Limited

The Group entered into the sale with Morrisons of LMD, the Group company which owned the land and buildings of CFC2. The Group disposed of its equity interest in LMD to Morrisons on 25 July 2013 and the net assets of LMD at the date of disposal were as follows:

	As at 25 July 2013 £m
Property, plant and equipment	80.3
Cash and cash equivalents	1.0
Trade and other payables	(34.7)
Borrowings	(45.6)
Net assets	1.0
Total Consideration	1.0
Satisfied by:	
Cash and cash equivalents	1.0

Amounts due on outstanding debt were settled by Morrisons in lieu of trade and other payables due to the Group from LMD at the time of disposal.

The impact of LMD on the Group's results in the current period up to the date of disposal, and the prior period was as follows:

	As at 25 July 2013 £m	53 weeks ended 2 December 2012 £m
Revenue	-	-
Administrative expenses	(0.3)	-
Operating loss	(0.3)	-
Finance costs	(1.5)	-
Loss before tax	(1.8)	-

Immediately following the disposal of LMD, the Group entered into a 25 year lease with LMD for the use of the land and buildings of CFC2. This lease has been classified as an operating lease in accordance with the provisions of IAS 17 'Leases'.

LMD subsequently has been renamed Firsdell Limited.

5.2(b) Sale and leaseback of MHE to a Joint Venture

An entity was incorporated, MHE JV Co Limited, in which Ocado and Morrisons each acquired a 50% equity interest, after completion of all the set-up transactions which form part of the agreement. The Group's

interest in this entity has been classified as an investment in a joint venture, in accordance with the provisions of IFRS 11 'Joint Arrangements'.

On 25 July 2013, the Group completed a sale and 25 year leaseback transaction of its MHE relating to CFC2, with the newly created MHE JV Co. The lease of the CFC2 MHE has been classified as a finance lease in accordance with the provisions of IAS 17 'Leases'.

The Group sold £116.0 million of its MHE relating to CFC2, of which £0.8 million of assets remain to be transferred at year end. The proceeds of the sale and leaseback transaction comprise £58.0 million in cash and a 50% equity interest valued at £58.0 million in MHE JV Co, which is based on the post-transaction net asset value of MHE JV Co.

Further information surrounding the strategic operating agreement can be found in the Shareholder Circular on our corporate website, www.ocadogroup.com.

The Group is accounting for the investment in MHE JV Co as a joint venture under the equity method of accounting, in accordance with the provisions of IFRS 11 'Joint Arrangements".The Group's share of profit after tax for the year amounted to £0.9 million has been included in the consolidated income statement is detailed as follows:

	52 weeks ended 1 December 2013
	£m
Group share of revenue	1.0
Group share of expenses, inclusive of tax	(0.1)
Group share of profit after tax	0.9

Finance income receivable from the Group in respect of the finance lease was the primary source of MHE JV Co's revenue.

5.3 Post balance sheet events

There have been no significant events, outside the ordinary course of business, affecting the Group since 1 December 2013.

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

END

FR UGUPWPUPCPPW