OCADO GROUP PLC

This announcement contains inside information

Preliminary results for the 52 weeks ended 27 November 2016

31 January 2017

Financial and statutory highlights

	FY 2016 £m	FY 2015 £m	Variance %
Gross sales[1] (Retail)	1,267.4	1,115.7	13.6
Revenue[2]	1,271.0	1,107.6	14.8
EBITDA[3]	84.3	81.5	3.3
Profit before tax and exceptional items	14.5	11.9	21.8
Profit after tax	12.0	11.8	1.7
Cash and cash equivalents	50.9	45.8	
Net debt	164.9	127.0	
External net debt[4]	56.2	7.5	

Tim Steiner, Chief Executive Officer of Ocado, said:

"We are pleased to announce results today which reflect robust trading in our core business and shows continued progress against our strategic objectives in what has been a challenging retail environment. Over the course of the last year, we grew our active customer base by almost 14%, with growth in average orders per week approaching 18%, testament to the strength of our customer proposition, market position and technology.

"We commenced operations at our new Customer Fulfilment Centre in Andover, which has the first installation of our new proprietary technology. At the same time, we have made good progress in improving the efficiency and throughput of our existing operations, increasing our capacity from existing facilities by over 20,000 weekly orders. These developments position us well for future growth, whilst improving our returns and enhancing the service we can offer our customers.

"In this ever evolving retail environment, we look forward to further developing our capabilities through innovation, creating the next generation eCommerce capabilities that will ensure our offer remains compelling for both retail and OSP customers alike."

Strategic update

We have continued to make strong progress in delivering our strategic objectives - driving growth, maximising efficiency and utilising proprietary knowledge, through the following actions:

Constantly improving the proposition to customers

- Market-leading service levels remain high at 94.9% for delivery punctuality (2015: 95.3%) and at 99.0% (2015: 99.3%) for order accuracy
- Range at Ocado.com further broadened to over 50,000 SKUs (2015: 47,000 SKUs)
- Further interface improvements including calorie saver suggestions, online coupons and new shop-in-shops
- Launch of our latest destination site, Fabled, in the premium beauty segment, together with its flagship store in London
- Voted Best Online Supermarket for the second consecutive year at the Grocer Gold Awards 2016

Strengthening brands

- Active customers[5] up 13.9% to 580,000 (2015: 509,000)
- Total order volumes have grown by 17.9% to an average of over 230,000 orders per week (2015: 195,000 OPW), with highest number of orders delivered in a week exceeding 270,000
- Ocado own-label sales up over 10%, with over 6 products per average customer basket
- Average hypermarket basket value declined by 2.7% to £108.10 (2015: £111.15), impacted by price deflation in the market and continued uptake of Ocado Smart Pass
- Continued year-on-year growth of over 40% in general merchandise revenues

Continuously developing more capital and operationally efficient infrastructure solutions

- Commenced operations at our new CFC in Andover, Hampshire, in November 2016
- Mature CFC[6] operational productivity improved to 160 UPH (2015: 155 UPH)
- Delivery efficiency improved further to 176 DPV (2015: 166 DPV)
- Expecting a further 20,000 OPW capacity in mature CFCs with limited additional capital expenditure

Enhancing end-to-end technology systems

- Roll out of new software platform started with commencement of operations in Andover CFC
- Further innovation and increased activity to protect our intellectual property; patent applications now covering over 50 innovations had been filed by the end of the period
- Continued expansion of our development teams to include over 950 technology professionals and over 200 qualified engineers

Enabling Wm Morrison Supermarkets ("Morrisons") and future partners' online businesses

- We have provided the capability and execution for strong growth for our first commercialisation partner, Morrisons.com
- Announced extension to agreement with Morrisons covering provision of additional future CFC capacity and broadening of services we provide, including provision of a store picking module
- Continued discussions with multiple international retailers regarding adoption of Ocado Smart Platform solution

Results presentation

A results presentation will be held for investors and analysts at 9.30am today at Peterborough Court, 133 Fleet Street, London EC4A 2BE. Presentation material will be available online at http://www.ocadogroup.com/investors/reports-and-presentations/2016.aspx

Contacts

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Notes

1. Gross sales include VAT and marketing vouchers
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 a non-GAAP measure which we define as earnings before net finance cost, taxation, depreciation, amortisation, impairment and exceptional items
4. External net debt is the net debt less amounts owing to MHE JVCo of £108.7 million (2015: £119.5 million)
5. Customers are classified as active if they have shopped on ocado.com within the previous 12 weeks
6. 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 Q1 Trading Statement on 14 March 2017, a Half Year Results Statement on 5 July 2017, a Q3 Trading Statement on 19 September 2017 and a Q4 Trading Statement on 14 December 2017.

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

Robust progress in a challenging market

Our 2016 performance highlights the strength of our core retail business model. In a grocery market with limited growth we delivered double digit sales growth through the year, consistently ahead of both the UK online grocery segment and the grocery market as a whole. We commenced operations at our latest CFC in Andover, Hampshire, which has the first installation of our next generation physical infrastructure solution. We progressed with the building of our largest ever CFC in Erith, South East London. We also extended the scope of our agreement of services to Morrisons.com, and advanced discussions with multiple potential international partners to utilise Ocado Smart Platform.

We continued to deliver on our strategic objectives, namely, to drive growth, maximise efficiency and utilise our proprietary knowledge. These objectives are shared among both our retail and platform businesses and enable us to ideally position ourselves for the continuing shift to online that is taking place in the grocery industry, both in the UK and globally.

This progress has been made in a UK grocery market that has faced significant challenges throughout 2016. Intense competition, influenced by continued changing trends in customer behaviour with ongoing shifts to using discount and smaller format stores and online, has driven sustained price deflationary pressures across the grocery industry. Input cost inflation, largely fuelled by labour cost rises, and more latterly the impact of currency devaluation following the EU referendum, has added to the challenging environment and resulted in margin pressure and uncertainty across the industry. Our continued focus on improving our proposition to customers and driving the efficiency of our business through technology helps to protect us in these conditions.

Progress against our strategic objectives

We have a number of core complementary actions, which form a framework to achieve our strategic objectives for our retail and corporate customers, intended to deliver long-term shareholder value. These actions are to:

- Constantly improve the proposition to customers;
- Strengthen our brand;
- Develop more capital and operationally efficient infrastructure solutions;
- Constantly enhance our end-to-end technology systems; and
- Enable Morrisons' and future partners' online businesses.

Constantly improve the proposition to customers

Our core focus remains on offering the best possible proposition to our customers, which we believe is central to driving growth for both our retail and partner businesses.

From a retail perspective, we continued to focus on improving each of the core elements of our customer proposition - providing excellent service and user experience, an extensive range of products, and offering competitive prices. Our efforts in improving the proposition to customers have been evidenced by the award of the Best Online Supermarket for the second consecutive year at The Grocer Gold Awards 2016.

Providing a compelling proposition to consumers is critical to attracting new customers to Ocado, and to encourage loyalty and retention for future shops. We constantly analyse and review our offering against the wider market and focus on innovation in order to seek to stay ahead of our peers. A consistently positive user experience is at the heart of our service and we always strive to improve the customer experience through enhancements to the speed, convenience and ease of using our service. This provides our customers with the freedom and flexibility to navigate easily and complete their weekly shop wherever and whenever they please.

Mobile has continued to grow in significance with over 55% of all orders at Ocado being checked out using our latest apps and browsers on mobile devices. Given the importance of mobile, and the constant development and improvement of underlying mobile device technologies, it is critical we continually improve our capabilities to enable easy to use shopping.

We strive to be at the forefront of innovation and new developments and have continued to focus on improving functionality and personalisation for our customers to enhance their shopping experience, with features such as customised gifts based on prior shopping habits, calorie saver suggestions and personalised online coupons. We have introduced additional 'shop-in-shops' including our Picard shop specialising in high end frozen food and the Discovery Shop in partnership with the Grocery Accelerator to help food and drink start-ups trial concepts and get to market, further assisting customers to find more of their requirements in easily and carefully curated areas of our shop.

In June 2016 we launched a 'Supply Ocado' entrepreneurship portal, which allows potential suppliers from businesses of all sizes, from across the globe, the opportunity to access our buying team and apply to supply Ocado – with feedback provided to all applicants.

We further extended our delivery choices in some catchments with the earliest slot now starting at 5:30am to cater for the very early risers among our customers. Order accuracy was 99.0% (2015: 99.3%), with delivery punctuality (orders delivered on time or early) standing at 94.9% (2015: 95.3%). We believe our order accuracy and delivery punctuality continue to be market leading, both critical elements in providing a high quality, reliable and consistent service for our customers.

With what we believe to be the broadest range of products in the industry, our customers were able to choose from over 50,000 SKUs by the end of 2016 (2015: 47,000 SKUs) when shopping at Ocado.com. Our diverse range includes basic everyday items, own label products from both Ocado and Waitrose, other favourite brands, specialist and international product ranges, as well as general merchandise items ranging from basic clothes to standard electrical appliances.

Our Low Price Promise ("LPP") basket matching scheme ensures that we are price competitive against the market leader. This transparent pricing strategy gives confidence to our customers in the prices they are paying for their shopping. Despite price reductions and broader food price deflation in the market, nearly three quarters of our customers' baskets were already cheaper at Ocado when checking for LPP. The cost of LPP to Ocado in the form of vouchers used during the period slightly increased but remained low, reflecting our competitiveness in prices and sustained promotional activity.

Our bundled customer benefit membership scheme, Ocado Smart Pass, continued to be popular this year, with over half of regular sales conducted with Smart Pass customers. Smart Pass offers customers multiple benefits including free deliveries whilst enabling us to drive customer loyalty, shopping frequency and ultimately increase total spend per customer.

Our general merchandise product sales, including those from our destination sites, notably Fetch.co.uk, our dedicated pet store, have grown at over 40% year-on-year, and now constitute almost 7% of Ocado retail sales. In August 2016, we launched our latest destination site, Fabled, our premium beauty store in partnership with Marie Claire. The online shop is complemented by a flagship store in Tottenham Court Road, London, offering a physical showcase opportunity to the many premium brands we now work with. The early performance of Fabled is encouraging and we look forward to further developing this and our other destination sites. These destination sites are complementary to our Ocado.com offerings giving our customers access to significant additional assortments across everyday general merchandise categories.

Any improvements and innovations added to our retail proposition enhance the key features we can apply to the technology embedded in our platform, allowing our existing and future corporate customers to benefit from our continued development.

Strengthen our brands

We continued to reinforce our retail brand equity and values to our wide range of stakeholders including our existing customers who have recognised the quality of our proposition, evidenced by winning a number of awards including Best Online Retailer at the Best of Organic Market Awards and Best Online Retailer at the Loved By Parents Awards.

Our Ocado own-label continues to grow, further reinforcing our brand recognition. This year we have seen sales up over 10% against the equivalent period last year, with growth constrained by our contractual obligations with Waitrose. The average customer basket now contains over six Ocado own-label products, with over 90% of our customers having bought Ocado own-label products. The value of our brand and strength of these products is evidenced by multiple awards for our Ocado-own label products in 2016. These include the Gold award for the Ocado own-label Veg and Salad Box by Women's Fitness and several awards in organic food and baby product categories at the Loved by Parents Awards.

Our active customer base continued to expand to 580,000 (2015: 509,000), up 13.9% as we continued to grow in all of our existing catchment areas. Similarly our total order volumes have shown robust growth of 17.9% to an average of over 230,000 orders per week ("OPW") (2015: 195,000 OPW), with the highest OPW exceeding 270,000 during the period.

The average basket size at Ocado.com (excluding the impact of smaller standalone orders from our destination sites) declined by 2.7% to £108.10 (2015: £111.15), primarily due to price deflation across the industry. There was also some impact from the continued uptake of our Ocado Smart Pass offering which tends to drive increased customer frequency but with smaller basket sizes.

Our existing destination brands continue to strengthen. We anticipate Fabled, benefitting from the strong brand association of our partner, Marie Claire, will develop into an attractive destination retail brand for premium beauty products.

We continue to work on our Ocado Smart Platform offering, utilising our Ocado Smart Platform branding to strengthen the marketing of the service to international commercial partners.

While not an external brand, we have been active in promoting the strength and values of Ocado Technology. Brand development has been focused on awareness activities largely through editorial and speaking opportunities, including participating in features with titles such as the Harvard Business Review, New Scientist and the technology section of wider publications such as the Wall Street Journal. This focus ensures we are able to recruit the best talent to develop the most innovative technology for use within our business.

Continuously develop more capital and operationally efficient infrastructure solutions

Our two mature Customer Fulfilment Centres in Hatfield and Dordon continued to operate to high levels of accuracy and with improved efficiency (we consider a CFC to be mature if it has been open for 12 months by the start of the half year reporting period).

With limited investment we have increased capacity in both facilities to more than their designed maximum limits, and now expect to be able to operate at over 165,000 OPW from Hatfield CFC and at over 190,000 at Dordon CFC. This benefits not just Ocado but also Morrisons.com, as we have now taken the capacity of Dordon CFC above the anticipated capacity level at the time of our 2013 agreement. Using the units per labour hour efficiency measure ("UPH"), the average productivity for the period in these operations was 160 UPH (2015: 155 UPH).

We commenced operations at our new CFC in Andover, Hampshire, in November 2016, which will ramp up in future periods. This is particularly significant as Andover CFC houses the first installation of our new proprietary modular, scalable physical fulfilment solution. This solution will also offer many other benefits, such as the ability to pick an entire order in less than 5 minutes compared with an average of over two hours in our earlier CFCs. This will significantly reduce order processing lead times and give more flexibility to offer improved services for customers. At maturity Andover CFC will add approximately 65,000 OPW of capacity at an estimated capital cost of £45 million for the material handling equipment ("MHE").

We continued to develop our fourth CFC in Erith, South East London. The building is now complete and fit out works started during 2016. We plan to commence operations in FY2018. The MHE solution in this CFC is estimated to cost £135 million and will add over 200,000 OPW of capacity to our operations. Similar to our Andover CFC, this CFC will also use our proprietary modular, scalable fulfilment solution which will enable us to phase the investment over time in line with our capacity requirements. We expect this to be our most capital efficient CFC to date, and we anticipate it will enable us to efficiently expand our UK capacity. Approximately 30% of the Erith CFC capacity will be utilised for Morrisons.com under the extension agreement that was signed during 2016. In addition we plan to open a second general merchandise facility in 2018 to enable our general merchandise sales to continue to grow rapidly.

Enhancements to our routing system, increased availability of Sunday delivery slots and improved customer density led to an improvement in average deliveries achieved on a van route and has helped us increase deliveries per van per week across all shifts ("DPV") to 176 (2015: 166). We increased our delivery capacity within existing catchments by extending and rationalising our hub and spoke network. In 2016 we opened two new spoke sites in Peterborough and Crawley, while relocating operations from, and subsequently closing, our Southampton spoke to our Andover CFC.

Enhance our end-to-end technology systems

Core to our business and competitive advantage is our proprietary IP, knowledge and technology that supports our market leading proposition to customers and drives our operating efficiencies and to enable attractive economics. We continually strive to improve and develop our technology and believe that this innovation continues to create a competitive edge across our business. Our patent activities help to create a web of protection for our IP. As at the end of the period, we had filed patent applications covering over 50 separate innovations and the first few patents were granted during 2016.

Our focus on innovation has allowed us consistently to improve our own skills. Our innovation is enabled by our extensive and growing technology and engineering teams. By the end of the period our technology team comprised over 950 IT and software professionals operating from multiple technology centres in the UK, Poland, Spain and Bulgaria, taking advantage of the significant technological expertise found in these regions.

In addition to our technology team, we have a dedicated engineering team of over 200 qualified engineers deployed in current operations, CFC development and build, and platform business projects. This team, working closely with the technology team, are core to developing, building and commissioning our proprietary infrastructure equipment solution, now deployed in Andover CFC.

Enable Morrisons' and future partners' online businesses

We have built our retail business through developing and utilising proprietary solutions in technology, engineering and operations. As we continue to develop and innovate in our retail business we embed any improvements into our platform for existing and future partners, enhancing the opportunity to commercialise our IP. The commencement of operations at our Andover CFC will, we hope, provide further evidence of the capabilities and showcase to future Ocado Smart Platform customers the attractiveness of our proprietary solutions.

Morrisons.com launched as an online business in January 2014 using our broader platform offering. Our technology and service capabilities have enabled its strong growth, which continued through the 2016 period. To enable its further growth, in August 2016 we announced an extension of this agreement with Morrisons to include our Erith CFC. The renegotiated terms for additional capacity, which will come on stream in 2018, are more in line with the format of how we wish to operate with future platform partners. Among other things the agreement provides Morrisons with a 30% share of the capacity from our Erith CFC as well as the provision of a store pick module, which will allow Morrisons.com to service its customers from their store estate, alongside the CFC fulfilment Ocado provides, and also reach customers not served by our current CFCs.

During the period, we continued to engage and develop discussions with multiple international retailers about how we might assist them in launching or improving online businesses in their own markets using our technology and solutions collectively branded as Ocado Smart Platform. Ocado Smart Platform customers will benefit from our experience and from the latest technology and innovations we apply to our own retail business, offering flexible fulfilment (through CFC or store-based operations) and last mile options (home delivery and pick up services). We have recently appointed Luke Jensen, who has extensive experience in strategy, online and grocery retailing, to a new role as CEO - Ocado Smart Platform, to help accelerate our discussions. He will start in mid-February. We remain confident in the quality of our commercial proposition and expect to sign multiple deals in multiple territories in the medium term.

People, awards and CR initiatives

By the end of the period, we employed almost 12,000 people, a net addition of over 1,700 new employees year-on-year. Our employees support our retail business, our Morrisons.com platform business and the development of Ocado Smart Platform.

We will continue expanding our pool of talented staff in 2017, including plans to add over 100 technology and engineering professionals. The launch of the Andover CFC, and the continued growth in our business will continue to create new opportunities for existing and new employees in various roles throughout 2017.

The commitment and energy of our people is central to our success and I want to once again acknowledge their remarkable contribution throughout this very busy and exciting time. The efforts of our people were recognised during the year with a number of awards and we regularly receive feedback highlighting the outstanding service provided by our Customer Service Team members who make the Ocado.com and Morrisons.com deliveries.

Our Code for Life programme, which teaches children coding skills using a free resource, now has almost 70,000 users, including almost 1,400 schools, in the UK and from another 60 countries. We believe this scheme is vital to help equip the next generation with key skills from which they will benefit; we are proud of its widespread uptake across the globe.

We continuously strive to be the UK's greenest grocery supplier, operating at what we believe are the lowest waste levels in the industry. Working in partnership with Ecometrica we hope to publish centralised waste data during 2017. Throughout 2016 we have also seen the recycling of Ocado uniforms as part of an offenders retraining programme, enabling us to help offenders learn new skills as well as repurpose and sell new garments with all proceeds going to the Ocado Foundation.

Outlook statement

We reported robust gross sales (Retail) growth of 13.6% for the period and we anticipate continuing to grow ahead of the online market in the year ahead.

We anticipate that capital expenditure in 2017 will be approximately £175 million, including the development of further capacity in the Andover and Erith CFCs, and further development to our infrastructure and technology solutions. The capital expenditure requirements for any Ocado Smart Platform deals signed are not expected to be significant in 2017.

Chief Financial Officer's review

For the period to 27 November 2016, we maintained solid sales growth in what has remained a challenging competitive environment. At Group level, sales increased driven principally by growth in our retail business with the balance coming from our agreement with Morrisons.

Solid growth in Retail sales, order volumes and the number of active customers in the period demonstrated the appeal of our retail proposition. Every year since we launched, we have seen over 10% growth in orders and in the period we grew total orders 17.9% year-on-year. Operating profitability in the period was adversely impacted by the continuing pressure on margins reflecting the competitiveness and deflationary pressures in the market, the impacts of the national living wage and our continued investment in a number of strategic initiatives to aid the future growth of the business. This was offset in part by more efficient operational fulfilment mainly at Dordon CFC and improvements in average deliveries per van per week.

	FY 2016 £m	FY 2015 £m	Variance
Revenue[1]	1,271.0	1,107.6	14.8%
Gross profit	435.3	375.1	16.0%
EBITDA before exceptional items	**84.3**	**81.5**	**3.3%**
Operating profit before share of result from JV and exceptional items	21.9	19.1	**14.7%**
Share of result from joint venture	2.1	2.3	**(8.7)%**
Profit before tax and exceptional items	**14.5**	**11.9**	**21.8%**
Exceptional items	(2.4)	-	-
Profit before tax	**12.1**	**11.9**	**1.3%**

1. Revenue is sales (net of returns) generated at Ocado.com, and the other retail banners - Fetch, Sizzle and Fabled, 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. Morrison MHE JVCo impact includes the income arising from the leasing arrangements with Morrisons for MHE assets and share of results from joint venture

Revenue

	FY 2016 £m	FY 2015 £m	Variance
Retail	1,171.6	1,033.7	13.3%
Morrisons recharges	79.9	55.1	44.9%
Morrisons fees	19.5	18.8	3.7%
Total revenue	**1,271.0**	**1,107.6**	14.8%

Revenue increased by 14.8% to £1,271.0 million for the period. Revenue from retail activities was £1,171.6 million, an increase of 13.3% which we believe continues to be ahead of the UK online grocery market. Revenue growth was driven by a 17.9% year-on-year increase in the full year average orders per week to 230,000. Product sales from the general merchandise destination sites grew by over 85% year-on-year driven by the increasing popularity of the Fetch pet store and the launch our new beauty destination site, Fabled, during the second half of the period.

The increase in order growth was partially offset by a reduction in average hypermarket order size, down 2.7% from £111.15 in 2015 to £108.10 in 2016, primarily due to deflation in the average item price as experienced across the grocery industry and a small reduction on the number of items partly due to the increased frequency of shop from our customers. Overall average basket size fell by 3.7% due to these effects and also the dilutive effect on the average order size from an increased mix of standalone destination site orders which are typically smaller average size.

The Morrisons arrangement contributed £99.4 million of revenue in 2016 (2015: £73.9 million). The growth was mainly driven by increased revenue from recharges for services provided to support the expansion of the Morrisons.com business. The fee income remained broadly in line with the prior year and comprised of the initial licence fees for the setup of technology services and annual fees relating to technology support, research and development and management services.

Gross profit

	FY 2016 £m	FY 2015 £m	Variance
Retail	335.9	301.4	11.4%
Morrisons recharges	79.9	54.9	45.4%
Morrisons fees	19.5	18.8	4.1%
Total gross profit	**435.3**	**375.1**	**16.0%**

Gross profit rose by 16.0% year-on-year to £435.3 million (2015: £375.1 million) and was 34.2% of revenue (2015: 33.9%), ahead of 2015 due to additional gross profit attributable to the Morrisons arrangement in the period, reflecting the sustained growth in the Morrisons.com business. Retail gross profit reduced to 28.7% of retail revenue (2015: 29.2%) primarily as a result of selling price deflation.

Other income increased to £52.9 million, up 7.9% year-on-year (2015: £49.0 million). Supplier income was 3.3% of retail revenue (2015: 3.1%). Supplier income grew year-on-year and continues to grow ahead of the rate of increase in revenue as we engage our suppliers in media opportunities on our customer interfaces (including website, mobile apps and mobile websites). Other income also included £2.5 million (2015: £2.5 million) of rental income relating to the lease of Dordon CFC and £11.7 million (2015: £11.2 million) of income arising from the leasing arrangements with Morrisons for MHE assets. 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 the joint venture and exceptional items for the period was £21.9 million (2015: £19.1 million).

Distribution costs and administrative expenses included costs for both the Ocado and Morrisons fulfilment and delivery operations. Total distribution costs and administrative expenses including costs recharged to Morrisons grew by 15.2% year-on-year. Excluding Morrisons, costs grew by 10.4% year-on-year, below the growth in average orders per week of 17.9%. The costs relating to the Morrisons operations are recharged and included in revenue.

	FY 2016 £m	FY 2015 £m	Variance
Distribution costs[1]	247.5	216.6	14.3%
Administrative expenses[1]	78.8	73.4	7.4%
Costs recharged to Morrisons[2]	79.8	54.9	45.4%
Depreciation and amortisation[3]	60.3	60.1	0.4%
Total distribution costs and administrative expense	**466.4**	**405.0**	**15.2%**

1. Excluding chargeable Morrisons costs, depreciation, amortisation and impairment charges
2. Morrisons costs include both distribution and administrative costs
3. Depreciation and amortisation excludes exceptional items for the period which amounted to £0.7 million impairment charge (2015: £nil)

At £247.5 million, distribution costs increased by 14.3% compared to 2015. Overall mature CFC UPH (for Hatfield CFC and Dordon CFC combined) was 160 in 2016 compared with 155 in 2015. The improvement in mature CFC UPH for the period was driven mainly by the improved productivity at Dordon CFC which had grown by 5.6% year-on-year to 174 UPH in 2016 and had regularly exceeded 180 UPH by the end of the period. Deliveries per van per week have improved by 6.3% year-on-year to 176 (2015: 166) as customer density improved and we increased Sunday delivery slots. During the period we opened two new spokes in Crawley and Peterborough. As a result of these new spoke openings and the annualised impact of three spokes (Dagenham, Milton Keynes and West Drayton), the expansion of the Bristol spoke and additional fixed costs arising from the move of the London spoke at White City to Park Royal in 2015, spoke fixed costs as a percentage of sales increased in the period.

	FY 2016 £m	FY 2015 £m	Variance
Central costs – other [1]	63.0	55.1	14.3%
Central costs – share-based senior management incentive charges[2]	4.1	7.8	(47.3)%
Marketing costs (excluding vouchers)	11.7	10.5	11.6%
Total administrative expenses[1]	**78.8**	**73.4**	**7.4%**

1. Excluding chargeable Morrisons costs, depreciation, amortisation and impairment

Total administrative expenses excluding depreciation, amortisation and costs recharged to Morrisons increased to £78.8 million (2015: £73.4 million) and as a percentage of retail revenue this reduced to 6.7% (2015: 7.1%). The year-on-year cost increases were mainly due to additional costs to operate Morrisons.com which are not recharged to Morrisons but for which the Group earns fees, and continued investments in our strategic initiatives to support future growth in both our general merchandise business and for the Ocado Smart Platform. These cost increases were offset by lower share-based management incentive costs driven by the net effect of the maturity of the 2013 LTIP scheme.

Marketing costs excluding voucher spend were higher at £11.7 million (2015: £10.5 million) and in line with the prior year as a percentage of retail revenue at 1.0% (2015: 1.0%).

Total depreciation and amortisation costs excluding exceptional items were £60.3 million (2015: £60.1 million), broadly flat year-on-year and this includes impairment charges of £0.7 million (2015: £1.8 million). Higher depreciation and amortisation arose from increased investment in vehicles and new spokes to support our continued order growth offset by lower depreciation as a result of lower capex spend at our existing CFCs over the last few years. We commenced operations at Andover CFC at the end of the period. As a result the capital work in progress of Andover CFC and its associated software did not have a depreciation impact in the period. The impairment charges in the period relate to our head office move, write offs related to the exit from the Southampton spoke site and from a detailed review of our legacy systems as we rewrite a number of key systems as part of our software replatforming.

Share of result from joint venture

MHE JVCo Limited ("MHE JVCo") was incorporated in 2013 on the completion of the Morrisons arrangement, with Ocado owning a 50% equity interest in this entity. MHE JVCo holds Dordon CFC assets which are leased to Ocado to service its and Morrisons' businesses. The income generated by MHE JVCo comprises interest income on finance leases granted to Ocado, offset by administrative expenses and depreciation on minor assets not subject to lease and administration charges. The Group share of MHE JVCo profit after tax in the period amounted to £2.1 million (2015: £2.3 million), the year-on-year decrease driven in main by a higher tax provision.

Exceptional items

Exceptional items in the period were £2.4 million (2015: £nil). Of this £1.7 million was recognised in EBITDA and related to our head office move and litigation against payment providers. The balance of £0.7 million is related to the accelerated depreciation charge as a result of our planned head office move.

Net finance costs

Net finance costs of £9.5 million (2015: £9.5 million) were in line with the prior year.

Profit before tax

Profit before tax and exceptional items for the period was £14.5 million (2015: £11.9 million).

Taxation

The Group provided for £0.1 million of corporation tax for one of its legal entities that does not have available prior year losses or capital allowances. Ocado had approximately £268.6 million (2015: £287.8 million) of unutilised carried forward tax losses at the end of the period. During 2016 Ocado incurred £43.4 million (2015: £36.2 million) in a range of taxes including fuel duty, PAYE and Employers' National Insurance and business rates.

Earnings per share

Basic earnings per share was 2.02p (2015: 2.01p) and diluted earnings per share was 1.96p (2015: 1.91p).

Capital expenditure

Capital expenditure for the period excluding share of MHE JVCo was £153.0 million (2015: £122.1 million) and comprised of the following:

	FY 2016 £m	FY 2015 £m
Mature CFCs	3.4	3.2
New CFCs	64.6	52.9
Delivery	20.6	25.3
Technology	34.3	23.0
Fulfilment Development	19.7	13.3
Other	10.5	4.4
Total capital expenditure[1, 2] (excluding share of MHE JVCo)	**153.0**	**122.1**
Total capital expenditure[3] (including share of MHE JVCo)	**156.9**	**126.5**

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 of £3.9 million in 2016 and of £4.4 million in 2015

Total investment in Mature CFCs was £3.4 million, which excludes the capital expenditure relating to MHE JVCo of £3.9 million. The investments at Hatfield CFC were primarily resiliency projects, for example installing additional chillers and crane and conveyor improvements. There have also been some capacity and productivity projects at the existing sites such as upgrading pick station scanners.

We incurred £64.6 million of costs in the period for the build and installation of our proprietary infrastructure at our new CFCs. At the end of the period, we commenced operations at our Andover CFC. This is the first of our CFCs to use our new proprietary infrastructure equipment solution and software, which will support the ongoing growth of our business. Andover CFC has an expected capacity of 65,000 OPW. Our fourth CFC located in Erith, South East London, will be larger than any of our existing CFCs with an expected capacity of over 200,000 OPW, and is planned to open in financial year 2018. We incurred £38.6 million of costs on this site in the period.

Delivery capital expenditure was £20.6 million (2015: £25.3 million). This included investment in new vehicles of £13.6 million (2015: £14.0 million) to support our business growth and replace vehicles at the end of their useful lives. These assets are typically on five year financing contracts. There was investment in new spokes of £2.0 million, which included the Crawley spoke which opened in April 2016 and the Peterborough spoke which opened in August 2016.

We continued to develop our own proprietary software and incurred £26.8 million (2015: £18.1 million) of internal development costs which were capitalised as intangible assets in the period, with a further £7.5 million (2015: £4.9 million) spent on computer hardware and software. Our technology headcount grew to over 950 staff at the end of the period (2015: over 700 staff) as increased investments were made to support our strategic initiatives, including major replatforming of Ocado's technology and migration of most of our systems to run on a public or private cloud. This will allow Ocado to achieve greater technical agility and enable the technology to support possible international expansion opportunities. In addition, we invested internal technology resources as part of developing capital projects for Dordon CFC and the further development of the Morrisons proposition.

Fulfilment development capital expenditure of £19.7 million (2015: £13.3 million) was incurred to further develop our next generation fulfilment solution which will be used in our new CFCs and for Ocado Smart Platform customers.

Other capital expenditure of £10.5 million, included £5.8 million of capital expenditure related mainly to our head office move. In addition to this we spent £3.5m in our general merchandise business to support growth in capacity in our existing general merchandise facility and the fit out and costs associated with the development of our new Fabled flagship store and online offering.

At 27 November 2016, capital commitments contracted, but not provided for by the Group, amounted to £34.4 million (29 November 2015: £22.3 million), this increase is mainly driven by commitments in our new CFCs. We expect capital expenditure in 2017 to be approximately £175 million which mainly comprises the continuing investment in the next generation of fulfilment 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

During the year the Group generated improved operating cash flow after finance costs of £96.9 million, up from £82.8 million in 2015, as follows:

	FY 2016 £m	FY 2015 £m
EBITDA	84.3	81.5
Working capital movement	18.5	2.3
Exceptional items [3]	(1.7)	-
Other non-cash items[1]	4.9	8.7
Finance costs paid	(9.1)	(9.7)
Operating cash flow	**96.9**	**82.8**
Capital investment	(123.9)	(99.1)
Dividend from joint venture[2]	8.4	8.1
Increase/(decrease) in debt/finance obligations	22.2	(26.8)
Proceeds from share issues net of transaction costs	1.1	4.5
Other investing and financing activities	0.4	-
Increase in cash and cash equivalents	**5.1**	**(30.5)**

1. Other non-cash items include movements in provisions, share of income from MHE JVCo and share-based payment charges
2. Dividend received from MHE JVCo of £8.4 million (2015: £8.1 million)
3. Total exceptional items of £2.4 million (2015: £nil) includes a £0.7 million impairment charge to property, plant and equipment, which is a non-cash item

The operating cash flow increased by £14.1 million during the year as a result of an increase in EBITDA of £2.8 million and a positive working capital movement of £16.2 million. The positive working capital movement includes a £25.2 million increase in trade payables primarily due to increased trade accruals and trade payables attributable to inventory increases prior to year end.

We continue to reinvest our cash for future growth and as a result the cash outflows due to capital investment increased to £123.9 million comprising investments in Andover CFC and Erith CFC, development of our next generation fulfilment solution and expenditure on our delivery assets.

In the period there was a net increase in debt and finance obligations of £22.2 million (2015: net repayments of £26.8 million). This included a £52.5 million drawdown on the Revolving Credit Facility (2015: £nil).

Balance sheet

The Group had cash and cash equivalents of £50.9 million at the period end (2015: £45.8 million) with the increase mainly owing to a net cash inflow from financing activities in the period.

External gross debt at the period end, which excludes finance leases payable to MHE JVCo, was £107.1 million (2015: £53.3 million). The increase of £53.8 million was mainly driven by a drawdown of £52.5 million on the Revolving Credit Facility (excluding capitalised transaction fees of £1.2 million), currently used for funding capital investment in the new distribution centres. The balance was a result of £16.6 million of additional vehicle and property debt, offset by net repayments of £14.1 million of borrowings.

Gross debt at the period end of £215.8 million (2015: £172.8 million) and includes amounts owing to MHE JVCo of £108.7 million (2015: £119.5 million).

Net external debt at the period end was £56.2 million (2015: £7.5 million).

Bank facility

In the prior year, the 3 year £100 million revolving unsecured facility was extended by a further two years to July 2019 and the amount of the facility was increased to £210 million. At the end of the period we had drawn down £52.5 million of the facility.

Change of external auditors

Following a tender process of the external audit, Deloitte LLP is being recommended at the Annual General Meeting for appointment as the Group's external auditors for the 2017 financial year.

Key performance indicators

The following table sets out a summary of selected unaudited operating information for 2016 and 2015:

	FY 2016 (unaudited)	FY 2015 (unaudited)	Variance %
Average orders per week	230,000	195,000	17.9%
Average order size (£)[1]	108.10	111.15	(2.7)%
Mature CFC efficiency (units per hour)[2]	160	155	3.5%
Average deliveries per van per week (DPV/week)	176	166	6.3%
Average product wastage (% of revenue)[3]	0.7	0.7	-
Order accuracy (%)[4]	99.0	99.3	(0.3)
Delivery punctuality (%)	94.9	95.3	(0.4)

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. This excludes sales and orders of destination sites
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 order accuracy , i.e. the percentage of items neither missing nor substituted

Consolidated income statement
for the 52 weeks ended 27 November 2016

	Notes	52 weeks ended 27 November 2016 £m	52 weeks ended 29 November 2015 £m
Revenue	2.2	1,271.0	1,107.6
Cost of sales		(835.7)	(732.5)
Gross profit		435.3	375.1
Other income		52.9	49.0
Distribution costs		(365.7)	(309.4)
Administrative expenses		(100.6)	(95.6)
Operating profit before result from joint venture and exceptional items		21.9	19.1
Share of result from joint venture		2.1	2.3
Exceptional items	2.4	(2.4)	-
Operating profit		21.6	21.4
Finance income	4.3	0.2	0.2
Finance costs	4.3	(9.7)	(9.7)
Profit before tax		12.1	11.9
Taxation		(0.1)	(0.1)
Profit for the period		12.0	11.8

Earnings per share	pence	pence
Basic earnings per share	2.02	2.01
Diluted earnings per share	1.96	1.91

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

	Notes	52 weeks ended 27 November 2016 £m	52 weeks ended 29 November 2015 £m
Operating profit		21.6	21.4
Adjustments for:			
Depreciation of property, plant and equipment	3.2	47.0	45.1
Amortisation expense	3.1	12.6	13.2
Impairment of property, plant and equipment	3.2	0.3	1.0
Impairment of intangibles assets	3.1	0.4	0.8
Exceptional item - Impairment of property, plant and equipment	2.4	0.7	-
Exceptional items - Other	2.4	1.7	-
EBITDA		84.3	81.5

Consolidated statement of comprehensive income
for the 52 weeks ended 27 November 2016

	52 weeks ended 27 November 2016 £m	52 weeks ended 29 November 2015 £m
Profit for the period	12.0	11.8
Other comprehensive income:		
Items that may be subsequently reclassified to profit or loss		
Cash flow hedges		
- Gains arising on forward contracts	0.1	0.2
- Gains arising on commodity swaps	0.8	-
- Losses arising on commodity swaps	(0.2)	(0.7)
Foreign exchange gains arising on translation of foreign subsidiary	0.3	-
Other comprehensive income for the period, net of tax	1.0	(0.5)
Total comprehensive income for the period	13.0	11.3

Consolidated balance sheet
as at 27 November 2016

	Notes	27 November 2016 £m	29 November 2015 £m
Non-current assets			
Intangible assets	3.1	79.7	52.9
Property, plant and equipment	3.2	397.3	327.3
Deferred tax asset		14.2	10.0
Financial assets		2.6	2.9
Investment in joint ventures		57.1	62.0
		550.9	455.1
Current assets			
Inventories		39.1	29.9
Trade and other receivables		59.4	60.8
Derivative financial instruments		0.3	-
Cash and cash equivalents		50.9	45.8
		149.7	136.5
Total assets		700.6	591.6
Current liabilities			
Trade and other payables		(205.6)	(164.4)
Borrowings	4.1	(52.9)	(1.6)
Obligations under finance leases	4.1	(29.8)	(26.5)
Derivative financial instruments		(0.2)	(0.7)
Provisions		(2.4)	(2.8)
		(290.9)	(196.0)
Net current liabilities		(141.2)	(59.5)
Non-current liabilities			
Borrowings	4.1	(6.1)	(7.7)
Obligations under finance leases	4.1	(127.0)	(137.0)
Provisions		(7.3)	(6.3)
Deferred tax liability		(6.9)	(2.7)
		(147.3)	(153.7)
Net assets		262.4	241.9
Equity			
Share capital	4.4	12.6	12.6
Share premium	4.4	256.9	258.7
Treasury shares reserve	4.4	(48.0)	(50.9)
Reverse acquisition reserve	4.4	(116.2)	(116.2)
Other reserves	4.4	0.2	(0.8)
Retained earnings		156.9	138.5
Total equity		262.4	241.9

Consolidated statement of changes in equity
for the 52 weeks ended 27 November 2016

	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 1 December 2014	12.5	255.1	(51.8)	(116.2)	(0.3)	118.9	218.2
Profit for the period	-	-	-	-	-	11.8	11.8
Other comprehensive income:							
Cash flow hedges							
- Gains arising on forward contracts	-	-	-	-	0.2	-	0.2
- Losses arising on commodity swaps	-	-	-	-	(0.7)	-	(0.7)
Total comprehensive income/(expense) for the period ended 29 November 2015	-	-	-	-	(0.5)	11.8	11.3
Transactions with owners:							
- Issue of ordinary shares	0.1	4.4	-	-	-	-	4.5
- Share-based payments charge	-	-	-	-	-	7.8	7.8
Reacquisition of interests in treasury shares	-	(0.8)	0.8	-	-	-	-
- Disposal of treasury shares	-	-	0.1	-	-	-	0.1
Total transactions with owners	0.1	3.6	0.9	-	-	7.8	12.4
Balance at 29 November 2015	12.6	258.7	(50.9)	(116.2)	(0.8)	138.5	241.9
Profit for the period						12.0	12.0
Other comprehensive income:	-	-	-	-	-	-	-
Cash flow hedges							
- Gains arising on forward contracts	-	-	-	-	0.1	-	0.1
- Gains arising on commodity swaps	-	-	-	-	0.8	-	0.8
- Losses arising on commodity swaps	-	-	-	-	(0.2)	-	(0.2)
Translation of foreign subsidiary	-	-	-	-	0.3	-	0.3
Total comprehensive income for the period ended 27 November 2016	-	-	-	-	1.0	12.0	13.0
Transactions with owners:							
- Issue of ordinary shares	-	1.1	-	-	-	-	1.1
- Share-based payments charge	-	-	-	-	-	6.4	6.4
- Disposal of treasury shares	-	(2.9)	2.9	-	-	-	-
Total transactions with owners	-	(1.8)	2.9	-	-	6.4	7.5
Balance at 27 November 2016	12.6	256.9	(48.0)	(116.2)	0.2	156.9	262.4

Consolidated statement of cash flows
for the 52 weeks ended 27 November 2016

	Notes	52 weeks ended 27 November 2016 £m	52 weeks ended 29 November 2015 £m
Cash flows from operating activities			
Profit before tax		12.1	11.9
Adjustments for:			
- Depreciation, amortisation and impairment losses	3.1, 3.2	61.0	60.1
- Movement in provisions		0.6	3.2
- Share of profit in joint venture		(2.1)	(2.3)
- Share-based payments charge		6.4	7.8
- Net Finance costs	4.3	9.5	9.5
Changes in working capital:			
- Movement in inventories		(9.2)	(2.3)
- Movement in trade and other receivables		2.5	(19.1)
- Movement in trade and other payables		25.2	23.7
Cash generated from operations		106.0	92.5
Interest paid		(9.1)	(9.7)
Net cash flows from operating activities		96.9	82.8
Cash flows from investing activities			
Purchase of property, plant and equipment		(85.3)	(70.7)
Purchase of intangible assets		(38.6)	(28.4)
Dividend received from joint venture		8.4	8.1
Interest received		0.2	0.2
Net cash flows from investing activities		(115.3)	(90.8)
Cash flows from financing activities			
Proceeds from the issue of ordinary share capital net of transaction costs		1.1	4.5
Proceeds from borrowings		61.3	8.2
Repayment of borrowings		(11.5)	(5.6)
Repayments of obligations under finance leases		(26.4)	(26.9)
Payment of financing fees		(1.2)	(2.5)
Settlement of cash flow hedges		0.2	(0.2)
Net cash flows from financing activities		23.5	(22.5)
Net increase/(decrease) in cash and cash equivalents		5.1	(30.5)
Cash and cash equivalents at the beginning of the period		45.8	76.3
Cash and cash equivalents at the end of the period		50.9	45.8

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 changes in equity, consolidated statement of cash flows and the related notes. The financial information for the 52 weeks ended 27 November 2016 is extracted from the audited consolidated financial statements. The financial information for the 52 weeks ended 29 November 2015 is derived from the statutory accounts.

The financial information in this preliminary results announcement does not constitute the Group's statutory accounts for the 52 weeks ended 27 November 2016 or the 52 weeks ended 29 November 2015 and does not constitute full accounts within the meaning of section 435 (1) and (2) of the Companies Act 2006. The statutory accounts for 2015 have been delivered to the Registrar of Companies. The auditors have reported on the Group's statutory accounts for the 52 weeks ended 27 November 2016; 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 Group's statutory accounts will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

The financial year represents the 52 weeks ended 27 November 2016 (the prior financial year represents the 52 weeks ended 29 November 2015). The consolidated financial statements for the 52 weeks ended 27 November 2016 comprise the financial statements of Ocado Group plc (the "Company"), its subsidiaries and the Group's interest in a jointly controlled entity (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 ("IFRIC") interpretations as endorsed by the European Union ("IFRS-EU"), and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The accounting policies applied are consistent with those described in the annual report and financial statements for the 52 weeks ended 29 November 2015 of Ocado Group plc.

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 the financial period or issued that are effective

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 30 November 2015 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:

		Effective Date
IFRS 5	Share-based Payments	1 January 2016
IFRS 10	Consolidated Financial Statements	1 January 2016
IFRS 11	Joint Arrangements	1 January 2016
IFRS 12	Disclosure in Other Entities	1 January 2016
IAS 1	Presentation of Financial Statements	1 January 2016
IAS 16	Property, Plant and Equipment	1 January 2016
IAS 28	Investments in Associates and Joint Ventures	1 January 2016
IAS 36	Intangible Assets	1 January 2016

Standards, amendments and interpretations issued that are not effective, and which have not been early adopted by the Group

The following further new standards, interpretations and amendments to published standards and interpretations which are relevant to the Group have been issued but are not effective for the financial year beginning 30 November 2015 and have not been adopted early:

		Effective Date
IFRS 2	Share-based payments	1 January 2018
IFRS 9	Financial Instruments	1 January 2018
IFRS 12	Disclosure in Other Entities	1 January 2017
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Leases	1 January 2019
IAS 28	Investments in Associates and Joint Ventures	1 January 2018
Various	Amendments to various IFRSs and IASs including those arising from the IASB's annual improvements project	Various

The following new standards are not yet effective and the impact on the Group is currently under review:

- IFRS 15 "Revenue from Contracts with Customers" (endorsed by the EU) provides on the recognition and measurement of revenue. The standard establishes a principles-based approach for revenue recognition and is based on the concept of recognising revenue for obligations only when they are satisfied and the control of goods or services is transferred. This applies to all contracts with customers except those in the scope of other standards. This new standard will replace IAS 12 "Revenue" and is effective for annual periods beginning on or after 1 January 2018 unless adopted early. The Group is currently reviewing the impact of IFRS 15.
- IFRS 16 "Leases" (endorsed by the EU) provides guidance on the classification, recognition and measurement of leases to help provide useful information to the users of financial statements. The main aim of this standard is to ensure all leases will be reflected on the balance sheet, irrespective of substance over form. The new standard will replace IAS 17 "Leases" and is effective for annual periods beginning on or after 1 January 2019 unless adopted early. The Group is currently reviewing the impact of IFRS 16.

Use of alternative performance measures

The Group uses EBITDA as an alternative performance measure ("APM") to explain and judge its performance. The Directors consider EBITDA to be a useful measure of the Group's operating performance because it approximates the underlying operating cash flow.

The Group defines EBITDA as earnings before interest, taxation, depreciation of property, plant and equipment, amortisation of intangible assets, impairment of intangible assets, property, plant and equipment, and exceptional items.

As EBITDA is not defined under IFRS, it is described as a 'non-GAAP' measure.

A reconciliation from operating profit, the most directly comparable IFRS measure to EBITDA, is shown below the consolidated 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 Intellectual Property ("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.

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

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

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

2.2 Gross sales

A reconciliation of revenue to gross sales is as follows:

	52 weeks ended 27 November 2016 £m	52 weeks ended 29 November 2015 £m
Revenue	1,271.0	1,107.6
VAT	98.9	82.4
Marketing vouchers	16.8	14.4
Gross sales	1,386.7	1,204.4

2.3 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 ("JSOS") 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 or vesting of all dilutive potential shares. The Company has two (2015: two) classes of instruments that are potentially dilutive, namely share options and shares held pursuant to the JSOS.

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

	52 weeks ended 27 November 2016 Number of shares (m)	52 weeks ended 29 November 2015 Number of shares (m)
Issued shares at the beginning of the period, excluding treasury shares	590.6	586.1
Effect of share options exercised in the period	2.5	2.2
Effect of treasury shares disposed of in the period	1.3	-
Weighted average number of shares at the end of the period for basic earnings per share	594.4	588.3
Potentially dilutive share options and shares	19.1	31.1
Weighted average number of diluted ordinary shares	613.5	619.4
	£m	£m
Profit attributable to the owners of the Company	12.0	11.8
	pence	pence
Basic earnings per share	2.02	2.01
Diluted earnings per share	1.96	1.91

2.4 Exceptional items

The profit for the period includes the following exceptional items:

	52 weeks ended 27 November 2016 £m	52 weeks ended 29 November 2015 £m
Head office relocation costs		
- Impairment of property, plant and equipment	0.7	-
- Other	0.8	-
Litigation costs	0.9	-
	2.4	-

Head office relocation costs

Following the growth of the business, the Group decided to relocate its head office. The move to the new premises is being completed in stages to minimise the impact on the business and the Group has incurred dual running costs as it transitions to the new premises. Due to the one-off nature of the head office move, these costs have been treated as exceptional.

Litigation costs
The Group has incurred litigation costs relating to the recovery of interchange fees for card transactions. The fees relating to this are material and non-recurring and have therefore been treated as exceptional.

Section 3 – Operating assets and liabilities

3.1 Intangible assets

	Internally generated assets	Other intangible assets	Total intangible assets
	£m	£m	£m
Cost			
At 30 November 2014	65.6	13.2	78.8
Additions	-	4.4	4.4
Internal development costs capitalised	24.1	-	24.1
Disposals	(6.7)	-	(6.7)
At 29 November 2015	83.0	17.6	100.6
Additions	-	4.9	4.9
Internal development costs capitalised	34.9	-	34.9
Disposals	(0.3)	(0.2)	(0.5)
At 27 November 2016	117.6	22.3	139.9
Accumulated amortisation			
At 30 November 2014	(36.6)	(3.8)	(40.4)
Charge for the period	(12.4)	(0.8)	(13.2)
Impairment	(0.8)	-	(0.8)
Disposals	6.7	-	6.7
At 29 November 2015	(43.1)	(4.6)	(47.7)
Charge for the period	(11.8)	(0.8)	(12.6)
Impairment	(0.4)	-	(0.4)
Disposals	0.3	0.2	0.5
At 27 November 2016	(55.0)	(5.2)	(60.2)
Net book value			
At 29 November 2015	39.9	13.0	52.9
At 27 November 2016	62.6	17.1	79.7

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

	52 weeks ended 27 November 2016	52 weeks ended 29 November 2015
	£m	£m
Cost	14.3	13.8
Accumulated amortisation	(11.2)	(9.3)
Net book value	3.1	4.5

For the 52 weeks ended 27 November 2016, internal development costs capitalised represented approximately 88% (2015: 85%) of expenditure on intangible assets and 22% (2015: 19%) 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 30 November 2014	55.2	352.1	47.4	454.7
Additions	25.5	48.5	18.4	92.4
Internal development costs capitalised	-	5.8	-	5.8
Disposals	-	(3.1)	(10.6)	(13.7)
At 29 November 2015	80.7	403.3	55.2	539.2
Additions	27.6	63.7	16.6	107.9
Internal development costs capitalised	-	10.1	-	10.1
Disposals	(0.1)	(4.9)	(7.5)	(12.5)
At 27 November 2016	108.2	472.2	64.3	644.7
Accumulated depreciation and impairment				
At 30 November 2014	(18.5)	(138.8)	(22.2)	(179.5)
Charge for the period	(1.9)	(33.4)	(9.8)	(45.1)
Impairment	(0.1)	(0.9)	-	(1.0)
Disposals	-	3.1	10.6	13.7
At 29 November 2015	(20.5)	(170.0)	(21.4)	(211.9)
Charge for the period	(1.9)	(33.4)	(11.7)	(47.0)
Impairment	-	(1.0)	-	(1.0)
Disposals	0.1	4.9	7.5	12.5
At 27 November 2016	(22.3)	(199.5)	(25.6)	(247.4)
Net book value				
At 29 November 2015	60.2	233.3	33.8	327.3
At 27 November 2016	85.9	272.7	38.7	397.3

Included within property, plant and equipment is capital work-in-progress for land and buildings of £27.4 million (2015: £31.9 million) and capital work-in-progress for fixtures, fittings, plant and machinery of £22.9 million (2015: £57.5 million).

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

	Land and buildings £m	Fixtures, fittings, plant and machinery £m	Motor vehicles £m	Total £m
At 29 November 2015				
Cost	30.3	207.0	54.5	291.8
Accumulated depreciation and impairment	(17.9)	(92.7)	(20.8)	(131.4)
Net book value	12.4	114.3	33.7	160.4
At 27 November 2016				
Cost	30.9	209.8	63.5	304.2
Accumulated depreciation and impairment	(19.5)	(110.6)	(25.0)	(155.1)
Net book value	11.4	99.2	38.5	149.1

Property, plant and equipment with a net book value of £19.0 million (2015: £19.9 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

	Less than one year £m	Between one year and two years £m	Between two years and five years £m	Total £m
As at 29 November 2015				
Secured loans	1.6	1.5	6.2	9.3
Total borrowings	1.6	1.5	6.2	9.3
As at 27 November 2016				
Unsecured loans	51.3	-	-	51.3
Secured loans	1.6	6.1	-	7.7
Total borrowings	52.9	6.1	-	59.0

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

Principal amount £m	Inception	Secured over	Current interest rate	Instalment frequency	Final payment due	Carrying amount as at 27 November 2016 £m	Carrying amount as at 29 November 2015 £m
210.0	Jul-14	Unsecured	LIBOR + 1.5%	Monthly	Jul-19[2]	51.3	-
2.5	Jul-14	Property, plant and equipment	9.12%[1]	Monthly	Jul-17	0.5	1.1
8.2	Sep-15	Freehold Property	LIBOR + 1.5%	Quarterly	Sep-18	7.2	8.2
						59.0	9.3
Disclosed as:							
Current						52.9	1.6
Non-current						6.1	7.7
						59.0	9.3

[1]Calculated as the effective interest rate, the calculation of which includes an optional balloon payment at the end of the term.

[2]Date of expiry of facility.

In the previous year, the unsecured three-year £100 million revolving facility was extended by a further two years and the amount of the facility was increased to £210 million. As at 27 November 2016, £52.5 million of the facility had been utilised, net of transaction fees. The Group regularly reviews its financing arrangements. The facility contains typical restrictions concerning dividend payments and additional debt and leases.

Obligations under finance leases

	27 November 2016 £m	29 November 2015 £m
Obligations under finance leases due:		
Within one year	29.8	26.5
Between one and two years	25.8	23.8
Between two and five years	66.4	62.1
After five years	34.8	51.1
Total obligations under finance leases	156.8	163.5

External obligations under finance leases are £48.1 million (2015: £44.0 million) excluding £108.7 million (2015: £119.5 million) payable to MHE JVCo, a joint venture company.

	27 November 2016 £m	29 November 2015 £m
Minimum lease payments due:		
Within one year	38.4	34.8
Between one and two years	31.7	30.3
Between two and five years	76.9	75.0
After five years	36.8	55.3
	183.8	195.4
Less: future finance charges	(27.0)	(31.9)
Present value of finance lease liabilities	156.8	163.5
Disclosed as:		
Current	29.8	26.5
Non-current	127.0	137.0
	156.8	163.5

4.2 Analysis of net debt

Net debt

	27 November 2016 £m	29 November 2015 £m
Current assets		
Cash and cash equivalents	50.9	45.8
Current liabilities		
Borrowings	(52.9)	(1.6)
Obligations under finance leases	(29.8)	(26.5)
	(82.7)	(28.1)
Non-current liabilities		
Borrowings	(6.1)	(7.7)
Obligations under finance leases	(127.0)	(137.0)
	(133.1)	(144.7)
Total net debt	(164.9)	(127.0)

Net debt is £56.2 million (2015: £7.5 million), excluding finance lease obligations of £108.7 million (2015: £119.5 million) payable to MHE JVCo, a joint venture company. £5.0 million (2015: £4.8 million) of the Group's cash and cash equivalents are considered to be restricted and are not available to circulate within the Group on demand.

Reconciliation of net cash flow to movement in net debt

	27 November 2016 £m	29 November 2015 £m
Net increase/(decrease) in cash and cash equivalents	5.1	(30.5)
Net (increase)/decrease in debt and lease financing	(23.4)	24.3
Non-cash movements:		
- Assets acquired under finance lease	(19.6)	(21.4)
Movement in net debt in the period	(37.9)	(27.6)
Opening net debt	(127.0)	(99.4)
Closing net debt	(164.9)	(127.0)

4.3 Finance income and costs

	52 weeks ended 27 November 2016 £m	52 weeks ended 29 November 2015 £m
Interest on cash balances	0.2	0.2
Finance income	0.2	0.2
Borrowing costs		
- Obligations under finance leases	(9.4)	(8.8)
- Borrowings	(0.3)	(0.6)
Fair value movement in derivative	-	(0.2)
Fair value movement on provisions	-	(0.1)
Finance costs	(9.7)	(9.7)
Net finance costs	(9.5)	(9.5)

4.4 Share capital and reserves

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

	Ordinary shares Number of shares (million)	Ordinary shares £m	Share premium £m
At 30 November 2014	620.9	12.5	255.1
Issues of ordinary shares	0.6	-	0.5
Reacquisition of interest in treasury shares	-	-	(0.8)
Allotted in respect of share option schemes	3.9	0.1	3.9
At 29 November 2015	625.4	12.6	258.7
Issues of ordinary shares	3.4	-	0.6
Disposal of treasury shares	-	-	(2.9)
Allotted in respect of share option schemes	0.4	-	0.5
At 27 November 2016	629.2	12.6	256.9

Included in the total number of ordinary shares outstanding above are 32,830,613 (2015: 34,770,981) 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 JSOS are treated as treasury shares in the consolidated balance sheet in accordance with IAS 32 ''Financial Instruments: Presentation''. These ordinary shares have voting rights but these have been waived by the trustee (although the trustee may vote in respect of shares that have vested and remain in the trust). The number of allotted, called up and fully paid shares, excluding treasury shares, at the end of each period differs from that used in the basic earnings per share calculation in Note 2.3 as basic earnings per share is calculated using the weighted average number of ordinary shares in issue during the period, excluding treasury shares.

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

	Treasury shares reserve £m	Reverse acquisition reserve £m	Fair value reserve £m
At 1 December 2014	(51.8)	(116.2)	(0.3)
Movement on derivative financial instrument	-	-	(0.5)
Disposal of treasury shares	0.1	-	-
Reacquisition of interest in treasury shares	0.8	-	-
At 29 November 2015	(50.9)	(116.2)	(0.8)
Movement on derivative financial instrument	-	-	0.7
Translation of foreign subsidiary	-	-	0.3
Disposal of treasury shares	2.9	-	-
At 27 November 2016	(48.0)	(116.2)	0.2

(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 not 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 commodity swaps and foreign currency hedges.

4.5 Capital commitments

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

	27 November 2016 £m	29 November 2015 £m
Land and buildings	2.5	3.4
Property, plant and equipment	31.9	18.9
Total capital expenditure committed at the end of the period	34.4	22.3

Of the total capital expenditure committed at the current period end, £25.7 million relates to new CFCs, £0.8 million to existing CFCs, £1.7 million to fleet costs and £2.0 million relates to technology related projects.

Section 5 – Other notes

5.1 Related party transactions

Key management personnel

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

	27 November 2016	29 November 2015
	£m	£m
Salaries and other short-term employee benefits	3.2	3.2
Share-based payments	3.1	5.6
	6.3	8.8

The share-based payment charge in 2016 was the charge arising for each of the share schemes in which the directors participate. Further information can be found in the Annual Report and Accounts, which we anticipate will be available on 9 February 2017.

Other related party transactions with key management personnel made during the period related to the purchase of professional services and amounted to £900 (2015: £6,000). 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, there were no amounts owed by key management personnel to the Group (2015: None).

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

Investment

The following transactions were carried out with Paneltex Limited, a company incorporated in the UK in which the Group holds a 25% interest.

	27 November 2016	29 November 2015
	£m	£m
Purchase of goods		
- Plant and machinery	-	0.1
- Consumables	0.5	0.5
Sale of goods	0.1	-
	0.6	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 £11.8 million (2015: £12.2 million). At period end, the Group owed Paneltex Limited £57,000 (2015: £31,000).

Joint Venture

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

	27 November 2016 £m	29 November 2015 £m
Capital contributions made to MHE JVCo	1.1	-
Dividend received from MHE JVCo	8.4	8.1
Reimbursement of supplier invoices paid on behalf of MHE JVCo	4.9	6.1
Lease of assets from MHE JVCo	3.1	3.0
Capital element of finance lease instalments paid to MHE JVCo	13.8	14.3
Interest element of finance lease instalments accrued or paid to MHE JVCo	5.8	6.2

During the period the Group paid lease instalments (including interest) of £19.6 million (2015: £20.5 million) to MHE JVCo.

Of the £19.6 million, £10.7 million (2015: £10.6 million) was recovered directly from Morrisons in the form of Other Income and a further £8.4 million (2015: 8.1 million) was received from MHE JVCo by way of a dividend. The remaining £0.5 million (2015: £1.8 million) represents capital expenditure requirements of MHE JVCo for which no additional funding was required from Ocado. The net result is the termination of £13.8 million of MHE JVCo debt during the period (2015: £14.3 million) with no corresponding net cash outflow.

In the current period, the Group made capital contributions of £1.1 million to MHE JVCo (2015: £nil).

Included within trade and other receivables is a balance of £5.3 million owed by MHE JVCo (2015: £5.6 million). £0.8 million of this relates to a finance lease accrual which is included within other receivables (2015: £1.0 million). £4.5 million (2015: £4.6 million) relates to capital recharges.

Included within trade and other payables is a balance of £3.8 million owed to MHE JVCo (2015: £1.0 million).

Included within obligations under finance leases is a balance of £108.7 million owed to MHE JVCo (2015: £119.5 million).

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

5.2 Post balance sheet events

There have been no significant events, outside the ordinary course of business, affecting the Group since 27 November 2016.

Announcement information

This announcement is made in accordance with the Market Abuse Regulation and the Disclosure Guidance and Transparency Rules.
The person responsible for arranging the release of this announcement:
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