Half-year Report

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RNS Number : 2949G
Ocado Group PLC
18 July 2023

OCADO GROUP PLC
Interim results for the 26 weeks ended 28 May 2023

18 July 2023

Financial and operational progress across Ocado Group

Financial progress

- Group revenue £1.4bn, +9%: Technology Solutions +59%, Ocado Logistics +2%, Ocado Retail +5%
- Group EBITDA*[1] of £17m: Technology Solutions EBITDA* positive; Ocado Logistics flat; Ocado Retail small loss in the half; positive EBITDA* throughout Q2
- Cost reductions across the Group: operational efficiencies and lower support costs
- Underlying cash outflow*[2] of £(288)m; +£108m versus 1H22: liquidity remains strong at £1.3bn (including £0.3bn revolving credit facility)
- Group EBITDA of £17m is offset by depreciation & amortisation and exceptional items to give a loss before tax of £(289)m
- **FY23 guidance unchanged**

Operational and strategic progress

- Technology Solutions: +35% growth in average live modules versus 1H22, increasing to 105 live modules at the end of the first half, +2 new CFCs live; 25 sites now live (21 CFCs, 4 Zooms)
- CFC direct operating costs[3] down from 2.1% to 1.8% of sales capacity
- Partner Success programme: delivering tangible results and improved economics for OSP partners
- Ocado Intelligent Automation: proposition and business model well advanced in attractive market
- Ocado Logistics: increasing productivity and efficiencies in warehouse and delivery services for our UK partners
- Ocado Retail: continued strong customer acquisition growth, items per basket has been stable since last October, improved customer focus and efficiencies in all areas delivering positive EBITDA* throughout Q2

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

"Ocado Group has made good progress over the last six months. Technology Solutions has continued to deliver our industry-leading Ocado Smart Platform around the world and the opening of the first CFC for AEON, Japan's biggest food retailer, in Chiba City, just outside

Tokyo, is a landmark for the grocery sector. It demonstrates that our proprietary AI and robotics can be applied to businesses across the globe; Ocado Intelligent Automation is well placed to sign its first deals to provide our automation solutions outside of grocery; and we are pleased to report significant progress in our Partner Success programme, where our partners such as Kroger are seeing tangible improvements in their operational performance. The success of this programme is important to our plans to deliver stronger growth in orders for new capacity.

In the UK, Ocado Logistics had a steady, profitable first half and Ocado Retail is making good progress, with a return to profitability in Q2. Our operations in the UK remain an important demonstration of the potential for our international ambitions, as we seek to transform the economics of online grocery and expand into the wider automated storage and retrieval solutions market.

At a Group level, I am pleased to see the operational and financial discipline delivered by all our teams as we focus on driving cost efficiencies and cash flow improvement. For these reasons, we look forward to delivering the full potential of the business and continuing to create lasting value for all our stakeholders."

Ocado Group 1H23 Income Statement

£m	1H23	1H22[6]	£m change	% change	FY22[6]
Revenue[4]					
Technology Solutions	198.2	124.7	73.5	58.9%	291.4
Ocado Logistics	335.2	329.7	5.5	1.7%	659.9
Ocado Retail	1,178.5	1,122.2	56.3	5.0%	2,203.0
Inter-segment eliminations	(341.2)	(314.2)	(27.0)	8.6%	(640.5)
Group	**1,370.7**	**1,262.4**	**108.3**	**8.6%**	**2,513.8**
EBITDA*[1]					
Technology Solutions	5.9	(58.8)	64.7	110.0%	(101.5)
Ocado Logistics	14.6	14.5	0.1	0.7%	33.6
Ocado Retail	(2.5)	31.3	(33.8)	(108.0)%	(4.0)
Inter-segment eliminations	(1.4)	(0.6)	(0.8)	(133.3)%	(2.2)
Group	**16.6**	**(13.6)**	**30.2**	**222.1%**	**(74.1)**
Depreciation & amortisation	(192.5)	(157.3)	(35.2)	(22.4)%	(348.6)
Finance expense	(31.4)	(41.6)	10.2	24.5%	(64.6)

FX gains/(losses)	(5.0)	8.2	(13.2)	(161.0)%	16.4
Exceptional items[5]	(77.2)	(7.0)	(70.2)	(1,002.9)%	(29.9)
Group loss before tax[5]	**(289.5)**	**(211.3)**	**(78.2)**	**(37.0)%**	**(500.8)**

* These measures are Alternative Performance Measures, refer to note 16 in the condensed financial statements.

Notes:

1. EBITDA* is a non-GAAP measure defined as earnings before net finance cost, taxation, depreciation, amortisation, impairment and exceptional items.
2.Underlying cash flow* is the movement in cash and cash equivalents excluding the impact of exceptional items, costs of financing, purchase of/investment in unlisted equity investments and FX movements.
3.Direct operating costs as a % of site sales capacity reflects the exit rate position for all OSP CFCs live at the period end. Direct operating costs include engineering, cloud and other technology direct costs. The prior year has been updated in line with this definition (previously 1H22 was 2.4%).
4. Revenue is a. Retail - online sales (net of returns) including charges for delivery b. Technology Solutions - the fees charged to solutions clients and c. Logistics - the recharge of costs and associated fees from Ocado Logistics to our UK clients. Recharges from Technology Solutions & Ocado Logistics to Ocado Retail are eliminated on consolidation.
5. Net exceptional costs of £77.2m primarily relates to £38.7m UK network capacity review, £17.4m change in fair value relating to the revaluation of the Marks and Spencer Group plc ("M&S") contingent consideration, litigation costs of £9.1m (related to patent infringement litigation between the Group and AutoStore Technology AS). Other exceptional items include costs associated with Ocado Group Finance transformation costs, Organisational restructuring costs and Ocado Retail IT systems transformation.
6. The Group has changed its segmental reporting for FY23 to reflect the Group's three distinct business models of Technology Solutions, Ocado Logistics and Ocado Retail. The FY22 prior year comparatives have been restated on the new segment basis. A detailed exercise has been carried out to ensure all costs are owned and managed within the appropriate segment. This has resulted in a different cost allocation to that used in the preparation of the pro forma numbers as presented in the 1H22 and FY22 results presentations for Logistics and Technology Solutions; Ocado Group EBITDA* loss of £14m at 1H22 and £74m at FY22 remain unchanged.

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

1H23 Operational and Strategic Review

Technology Solutions

OSP capacity rollout is driving strong revenue growth and high profit flow-through
Technology Solutions delivered strong operational execution with the rollout of new capacity in both new and existing markets. In the first half, two Customer Fulfilment Centres ("CFCs") and six new modules went live, taking the total to 25 sites and 105 live modules at the end of the period. The first CFC went live for AEON in Chiba City, just outside Tokyo, Japan in April and Sobeys' third CFC went live in Calgary in March. These new CFCs were delivered on time and on budget. Our equipment is performing well and the sites have started ramping up their capacity according to plan.

We are pleased with the improving financial progress in Technology Solutions as the number of live modules grows, reinforcing the dynamics of our business model. Our first-half performance demonstrates this with revenue growth of 58.9% and contribution margin of 71% which, combined with cost efficiencies, delivered strong profit flow-through and positive EBITDA*.

Our focus on efficiencies continues, support costs were £12m lower in the period, falling from £101m to £89m, as a result of cost reduction measures and the one-off profit of £5m from the sale of the Dartford spoke. We expect further progress over the course of the year driven by headcount reduction initiatives, discretionary cost expenditure actions, and specific project efficiencies such as the new finance platform that is now in place.

OSP Partner Success programme delivering results
Since January, Ocado's Partner Success teams have been working with our international OSP partners to more closely support them in delivering improved operational and financial performance in their CFCs, webshop, and last-mile delivery network, in order to maximise the

power of OSP and help accelerate orders for more modules versus the current rate which is currently towards the lower end of our mid-term target.

For Kroger, initial results from our work with them in their first two CFCs indicate significantly increased warehouse productivity (units picked per labour hour within the facility ("UPH") +25%), waste reduction (-30%), drops per van (+10%) and a lower operational cost per order (down 15%). Kroger is now applying these operational learnings across other sites to ensure the best performance is achieved from the OSP platform. There is still work to do and we will continue to support our partners with these dedicated teams, working together to make a sustainable difference to their economic returns in online grocery.

Ocado Intelligent Automation is well placed for first contract wins; acquisition of 6 River Systems

Ocado Intelligent Automation ("OIA") has been established to bring Ocado's unique and proprietary technology to clients outside grocery. OIA will operate a capital-light 'MHE sell' model designed so that upfront fees better match Ocado's cash outflows and will largely leverage existing OSP technology. Discussions are well-progressed with several potential clients across a range of industries. Although cash will be received up-front when the MHE is sold, we expect that revenue and profit will be recognised when the project goes 'live'.

On 30 June 2023, Ocado Group acquired 6 River Systems ("6RS") from Shopify for $12.7m to support the technology roadmap for Ocado Intelligent Automation. 6 River Systems is a collaborative Autonomous Mobile Robot ("AMR") fulfilment solutions provider to the logistics and non-grocery retail sectors, based in Massachusetts, USA. Founded in 2015, it has developed an Autonomous Mobile Robot product that provides automated assistance to pickers in a warehouse, working collaboratively with human operators. 6 River Systems brings new exciting possibilities to Ocado's IP and product set, as well as valuable commercial and R&D expertise in the non-grocery sector. The business acquired by Ocado Group has a good client list, is debt-free, cash flow positive, and generates positive EBITDA.

Outlook for Technology Solutions - 2H23

- One further CFC (Luton) will go live in 2H23. The opening of the two CFCs for Coles in Melbourne and Sydney, previously scheduled for 2H23 is under review, and we are working closely with Coles on the revised timing.
- Continued implementation of our Partner Success programme is expected to drive improved economics for our OSP partners and support the rollout of further sites and modules.
- Further operating efficiencies and cost reductions will support growth in profitability, including a gradual flattening of technology costs; positive EBITDA* is expected for FY23.

Ocado Logistics

Our third-party logistics ("3PL") operation, supporting Ocado Retail and Morrisons in the UK, continues to perform strongly and remains a good example of our highly efficient 3PL distribution model. In the first half operational costs grew by 0.6% driven by customer orders per week across our two partners which grew +4.3% and by eaches delivered which declined by 2.6% driven by fewer items per basket.

Inflation also affected operational costs, but this was well controlled by our teams and offset by productivity improvements in our OSP CFCs which saw UPH (units per labour hour picked) improve a strong 14%. Ocado Logistics is a reliable cash generator and EBITDA* of £15m was flat in the period.

Outlook for Ocado Logistics - 2H23

- Continued improvement in productivity for our UK partners

- We expect Ocado Logistics EBITDA* of around £25m for the full year, reflecting expected revenue growth and the cost-plus business model.

Ocado Retail

A return to profitability in the second quarter
Ocado Retail revenue grew by 5.0% in 1H23 driven by a mix of strong active customer growth of +10.6% to 959k, growth in average orders per week of +4.0% to 392k, and the average basket value increasing +1.5%. The basket value increase was driven by ASP (average selling price) of +8.4% (net of product mix effects), which was offset by smaller basket sizes which declined 6.3% to 45 items, and lower frequency of orders as customers managed their overall basket spend. The number of items per basket over the last quarter has stabilised at 44 items.

Ocado Retail's share of online grocery increased from 12.7% to 13.0% and remained stable as a % of the overall UK grocery market during the period. ASP inflation was well below UK grocery inflation of 12.8% (according to Nielsen) and we continue to invest in price and broaden our range to ensure we differentiate ourselves further alongside choice, service and experience. Our Ocado Price Promise now matches over 10,000 like-for-like goods between Ocado.com and Tesco. This is a key part of our strategy to support growth and the retention of customers and the increase in the total active customer base and mature customer base is indicating this strategy is delivering.

The total active customer base increased modestly, up 2,000 customers since the end of Q1; however, the mature customer base (those customers who have shopped 5 or more times with Ocado) continues to grow steadily and was up 14,000 customers over the same period, driven mainly by strong retention of new customers.

The Ocado Retail "Perfect Execution" programme is driving improved customer proposition and service levels, with on-time deliveries and order accuracy back to pre-covid levels; "Perfect Orders", meaning on time and in full, with no substitutions, increased by around 6 percentage points year on year. During 1H23 we introduced c.700 new Marks and Spencer Group plc ("M&S") grocery lines, offering customers even more choice.

There was strong control of costs across the board which meant that combined costs fell as a percentage of revenue. This includes productivity from improved efficiency at our CFC sites, where UPH (units picked per hour) improved by 13.8%, and marketing optimisation. This was offset by the increased capacity and costs of operating 2 new Zoom sites but with the announced closure of Hatfield CFC, we expect capacity used to reach greater than 75% by the end of the year.

Profitability improved throughout the first half with the Retail business delivering positive EBITDA* in each month of Q2. We see a clear pathway to continue this positive EBITDA trend as the capacity utilisation of the CFCs improves and the natural operational gearing within the business delivers incremental profitability.

UK network capacity review supports greater efficiencies and a better customer experience
The ceasing of operations at our oldest CFC in Hatfield, UK and the transfer of a portion of Hatfield's capacity to a new robotic CFC in Luton, scheduled to open in 2H23, will assist in the recovery of profitability for Ocado Retail. There will be a natural reduction in excess capacity, coupled with the more attractive economics of the latest generation of robotic CFCs. These CFCs are consistently achieving over 200 units picked per labour hour within the facility, compared to UPH of around 150 for our first-generation CFC in Hatfield. The newest sites also have much lower energy usage and together this will result in a reduction of fixed costs in FY24. With the benefit of Ocado Re:Imagined, Ocado will continue to drive improvements in UPH (to exceed the target of >300 UPH) and customer experience, including increased capacity for same-day deliveries. We continue to identify opportunities to retain as many of our Hatfield colleagues as possible within our other existing operations, primarily to the soon-to-be-opened Luton CFC.

Outlook for Ocado Retail - 2H23

- Q323 customer and order numbers will reflect the tougher comparison with significant customer acquisition actions in Q322.
- Volume-driven growth is expected to accelerate again in Q4.
- Ocado Retail is expected to be marginally EBITDA* positive in the full year.

Ocado Group

Group cash flow
Underlying cash outflow* improved by £108m in 1H23, driven by revenue growth, cost reductions and lower capital expenditure. The Group is on track to deliver the guided £200m of underlying cash flow improvement in the full year.

Group capital expenditure
Capital expenditure primarily comprises new site construction costs and technology development costs to enhance OSP. Capital expenditure was £283.6m in the period (1H22: £366.8m), a reduction of £83.2m, driven by a decrease in the number of CFCs and new modules under construction. Capital expenditure in H2 is expected to be lower than that in H1; full-year Group capital expenditure is expected to be no more than £550m, in line with the full-year guidance.

FY23 Guidance

The performance of our businesses in the first half gives us confidence in the full-year financial outcome. In the second half, our priorities remain focused on ongoing excellence in operational execution and financial discipline with costs and cash flow. There is no change to the financial guidance given at FY22 results on February 18th 2023.

	Revenue	EBITDA*	Capital Expenditure
Technology Solutions	**+40%**	**positive**	
Ocado Logistics	**broadly stable**	**around £25m**	
Ocado Retail	**mid-single digit growth**	**marginally positive**	
Total Group Capex	**-**	**-**	**£550m**

AutoStore Litigation
On 30 March 2023 Ocado Group recorded a comprehensive victory in the patent infringement suit brought by AutoStore at the UK High Court. His Honour Judge Hacon held that the AutoStore patents were invalid and Ocado did not infringe them. AutoStore had originally asserted six patents against Ocado in October 2020. Of these six patents, two were invalidated by the European Patent Office before judgement was handed down, two were withdrawn by AutoStore shortly before the hearing started and the remaining two patents were invalidated by Judge Hacon in today's judgement. Judge Hacon decided that even if he had not invalidated these remaining patents, Ocado's OSP did not infringe them. In addition, he also found that Ocado's

bots did not infringe the patents that AutoStore had withdrawn from the case. AutoStore has subsequently been ordered to pay Ocado £6.7m in costs.

This UK High Court decision follows Ocado's victory over AutoStore in the International Trade Commission in the USA in 2022. Ocado's claims against AutoStore for infringing Ocado's IP continue in Germany and New Hampshire, USA.

Results Presentation
A results presentation will be available for investors and analysts at 9.30am. This can be accessed online here. Following the session there will be Q&A, also accessible via the webcast.

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Financial Calendar
The schedule for Ocado Retail results for the remainder of the 2022 financial year is for a Q3 Trading Statement on the 19th of September 2023 and a Q4 Trading Statement on the 16th of January 2024.

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.

Financial Review

Headlines

Revenue increased by 8.6% to £1,370.7m (1H22: £1,262.4m):

- **Technology Solutions** delivered strong revenue growth, up 58.9% to £198.2m (1H22: £124.7m) with an average of 101 modules live during the period (1H22: 75). In the period we have added two new sites and six modules. These include the first Customer Fulfilment Centre ("CFC") in the Asia-Pacific region for AEON in Chiba City, just outside Tokyo, Japan; and the third CFC for Sobeys in Calgary, Canada. We now have 25 live sites (1H22: 18 sites, FY22: 23 sites) and 105 live modules (1H22: 86 live modules, FY22: 99 live modules).

- **Logistics** revenue grew by 1.7% to £335.2m (1H22: £329.7m), this primarily represents cost recharges to Ocado Retail and Wm Morrison Supermarkets Limited ("Morrisons") of £318.5m (1H22: £317.3m), which grew by 0.4%. While orders per week increased by 4.3% to 512,000 orders per week (1H22: 491,000) volumes, measured in eaches (individual items in the shopping basket), declined by 2.6% primarily due to the decrease in basket sizes as customers responded to the cost-of-living-crisis.

- **Retail** revenue increased by 5.0% year-on-year to £1,178.5m (1H22: £1,122.2m) reflecting growth of 10.6% in active customers to 959,000 (1H22: 867,000, FY22: 940,000). Price inflation has continued, with the average item price up 8.4% to £2.72 (1H22: £2.51). This has been partially offset by smaller basket sizes, declining 6.3% to 45 individual items (1H22: 48 items), as customers manage their overall basket spend. Orders per week have grown by 4.0% to 392,000 (1H22: 377,000), driven by the increase in active customers and offset by lower frequency of orders.

EBITDA* for the period was £16.6m (1H22: loss of £13.6m), an improvement of £30.2m driven by Technology Solutions, which generated positive EBITDA of £5.9m, up £64.7m (1H22: loss of £58.8m) due to strong profit flow-through from revenue growth. Logistics delivered EBITDA of £14.6m (1H22: £14.5m) on its resilient cost-plus model. Retail generated a £2.5m EBITDA loss (1H22: £31.3m profit) with a steadily improving trajectory toward full-year profitability. The year-on-year movement was driven by a decline in gross profit margin and the non-repeat of certain one-off benefits in 1H22.

Statutory loss before tax of £289.5m (1H22: £211.3m loss) includes depreciation, amortisation and impairment charges of £192.5m (1H22: £157.3m), net finance costs of £36.4m (1H22: £33.4m), and net exceptional costs of £77.2m (1H22: £7.0m), which include the one-off costs relating to the ceasing of operations at our oldest CFC in Hatfield and the change in the fair value of contingent consideration receivable from Marks and Spencer Group plc ("M&S").

Strong balance sheet, with cash and cash equivalents of £1,008.5m at the end of the period (FY22: £1,328.0m) and liquidity of £1.3bn (FY22: £1.6bn) (including the undrawn revolving credit facility ("RCF") of £0.3bn) to support our UK and international growth plans. Net debt* at the end of the period was £(900.7)m (1H22: £(758.8)m).

	1H23			1H22			
£m	**Pre-exceptional***	**Exceptional items**	**Total reported**	**Pre-exceptional***	**Exceptional items**	**Total reported**	**Pre-exceptional change**
Revenue	**1,370.7**	**-**	**1,370.7**	**1,262.4**	**-**	**1,262.4**	**8.6%**
Insurance proceeds	-	-	-	-	6.3	6.3	n/a
Operating costs	(1,353.2)	(56.8)	(1,410.0)	(1,275.5)	(13.3)	(1,288.8)	6.1%
Share of results from joint ventures and associates	(0.9)	-	(0.9)	(0.5)	-	(0.5)	80.0%
EBITDA*	**16.6**	**(56.8)**	**(40.2)**	**(13.6)**	**(7.0)**	**(20.6)**	**£30.2m**
Depreciation, amortisation and impairment	(192.5)	(20.4)	(212.9)	(157.3)	-	(157.3)	22.4%
Net finance costs	(36.4)	-	(36.4)	(33.4)	-	(33.4)	9.0%
Loss before tax	**(212.3)**	**(77.2)**	**(289.5)**	**(204.3)**	**(7.0)**	**(211.3)**	**3.9%**

* These measures are alternative performance measures. Please refer to note 16 of the consolidated financial statements.

This commentary is on a pre-exceptional basis to aid understanding of the performance of the business on a comparable basis. Following the change in the reporting of the Group's operating segments during the period (as further explained below), the Group has adopted a revised presentation of expenses in the Income Statement, replacing Cost of sales, Distribution expenses and Administrative expenses with a single line item for Operating costs.

The revised presentation provides an Income Statement that is more relevant for the total Group. Our three reporting segments have different operating models and costs, therefore, we have summarised the presentation of costs for the consolidated Income Statement and provided relevant details by segment in each section. This reflects the growing significance of the Technology Solutions business and provides more reliable reporting by eliminating the need for allocations between distribution and administrative expenses.

Revenue for the period increased by 8.6% to £1,370.7m (1H22: £1,262.4m). Technology Solutions revenue increased by 58.9% from £124.7m to £198.2m with the go-live of five sites in 2H22 including three for Ocado Retail (Bicester, Leyton and Leeds) and two for Kroger in the US (Denver and Baltimore). In 1H23, two sites went live with Sobeys' third CFC in Calgary and our first CFC for AEON in Chiba City, just outside Tokyo. The average number of live modules is the key revenue driver for Technology Solutions and increased by 34.7% from 75 in 1H22 to 101 in 1H23. Logistics revenue increased by 1.7% to £335.2m (1H22: £329.7m) and largely comprises cost recharges to its two UK customers, Ocado Retail and Morrisons). Retail revenue increased by £56.3m from £1,122.2m to £1,178.5m reflecting strong growth in active customers, growing order volumes and continued price inflation (that has led to smaller basket sizes, as customers manage their overall shopping basket spend).

Net cumulative invoiced fees to our Ocado Smart Platform ("OSP") partners that are on our balance sheet and not yet recognised as revenue increased by £37.9m from £390.3m at 1H22 to £428.2m at 1H23, driven by orders from our newest partners Lotte, Auchan Poland and AEON.

Operating costs include all costs incurred in the continuing operations of the Group. Operating costs increased by 6.1% to £1,353.2m (1H22: £1,275.5m). Technology Solutions operating costs increased by 4.8% to £192.3m (1H22: £183.5m) driven by an increase in the costs of operating live sites, driven by the increase in average live modules and higher technology costs as we continue to support and invest in the OSP. This was partially offset by a reduction in Technology Solutions support costs of £12.1m to £88.5m (1H22: £100.6m). Logistics operating costs increased by 1.7% to £320.6m (1H22: £315.2m) due to a 4.3% growth in orders that was offset by lower basket sizes and improved productivity across our OSP sites. Retail operating costs increased by 8.3% to £1,181.0m (1H22: £1,090.9m) largely driven by the growth in orders, continued inflation and incremental OSP fees year-on-year.

EBITDA* for the period was £16.6m (1H22: £13.6m loss) with the £30.2m improvement driven by a £64.7m improvement in Technology Solutions to £5.9m (1H22: £58.8m loss), offset by a £33.8m decline in Retail to £2.5m loss (1H22: £31.3m profit). The improvement in Technology Solutions EBITDA* was driven by the strong 88% flow-through of incremental revenue to EBITDA*, improving contribution margin of 71% (1H22: 65%) and cost reductions in support costs that were down 12.0% to £88.5m (1H22: £100.6m). Retail EBITDA* decline was primarily driven by 1. increased OSP fees for new sites that are not yet at full capacity; 2. investment in good value pricing to protect our customers from high cost price inflation which resulted in a gross profit margin decline from 34.3% to 33.1%; and 3. the one-off benefit in 1H22 from the release of a long-term incentive plan provision.

Depreciation, amortisation and impairment increased by 22.4% to a charge of £192.5m (1H22: £157.3m), primarily due to the increase in amortisation relating to internally generated intangible assets (primarily the investment in the Ocado Smart Platform) together with an increase in depreciation as a result of the continuing roll-out of OSP hardware and software at our

CFC sites. At the end of the period, there were 25 live sites (1H22: 18 sites) including 21 CFCs and 4 Zooms. Property, plant and equipment held on the balance sheet was £1,832.9m (1H22: £1,495.8m). The increase largely relates to the seven sites that have gone live in the last 12 months and the amortisation of technology projects that have gone live in the same period.

Net finance costs of £36.4m increased by £3.0m (1H22: £33.4m) and include finance costs related to our gross debt and lease liabilities, finance income on our cash balances and foreign exchange and revaluation movements.

Exceptional costs of £77.2m (1H22: £7.0m cost) primarily relate to the one-off costs related to the cessation of operations at the Hatfield site of £38.7m, the change in fair value of the contingent consideration due from M&S of £17.0m, litigation costs of £9.1m (primarily relating to the patent infringement litigation between the Ocado Group and AutoStore Technology AS) and organisational restructuring costs of £7.8m.

Statutory loss before tax of £289.5m (1H22: loss of £211.3m loss) reflects an EBITDA profit of £16.6m (1H22: loss of £13.6m), depreciation, amortisation and impairment of £192.5m (1H22: £157.3m), net finance costs of £36.4m (1H22: £33.4m) and net exceptional costs of £77.2m (1H22: £7.0m).

Segmental summary

£m	1H23	1H22[1]	Change
Revenue			**%**
Technology Solutions	198.2	124.7	58.9%
Ocado Logistics	335.2	329.7	1.7%
Ocado Retail	1,178.5	1,122.2	5.0%
Inter-segment eliminations	(341.2)	(314.2)	8.6%
Group	**1,370.7**	**1,262.4**	**8.6%**
EBITDA*			**£m**
Technology Solutions	5.9	(58.8)	64.7
Ocado Logistics	14.6	14.5	0.1
Ocado Retail	(2.5)	31.3	(33.8)

Inter-segment eliminations	(1.4)	(0.6)	(0.8)
Group	**16.6**	**(13.6)**	**30.2**

1. 1H22 has been restated to reflect the new reporting segments

Change in operating segments

For FY23, the Group has changed the reporting of its business segments to better reflect the Group's three distinct business models Technology Solutions, Ocado Retail and Ocado Logistics. From 1H23, the segmental reporting has been changed to reflect the new operating structure and the comparatives have been restated on this basis. The financial analysis for each segment has been set out to reflect the key revenue and cost categories for each business area. Further details on the components of each revenue and cost category have been provided within the relevant segment. An overview of each of our three business segments is provided below.

Technology Solutions is the global technology platform business providing the Ocado Smart Platform ("OSP") as a managed service to currently 12 grocery retail partners. This segment also includes the revenue and costs associated with Ocado's non-grocery business, Ocado Intelligent Automation ("OIA"), including Kindred, which was acquired in 2020.

Technology Solutions comprises 1. the revenue and direct operating costs of the OSP and OIA businesses, 2. the commercial and technology costs to sustain and grow these businesses, 3. the support costs for these businesses, such as Finance, Legal, HR, Information Technology and Board costs.

Ocado Logistics is our third-party logistics business, providing services to customers in the UK (Ocado Retail and Morrisons). The Logistics business operates automated warehouses and provides the associated supply chain and delivery services to our UK partners, and recharges these costs in full, with an additional management fee. The business also generates revenue from capital recharges relating to certain Material Handling Equipment ("MHE") assets used to provide logistics services. The segment includes 1. revenue from the management fees, cost recharges and capital recharges for operating all UK sites, 2. the related CFC and delivery costs 3. technology costs directly related to sites and any non-OSP customer platform technology costs, and 4. costs relating to central functions to support the provision of the logistics business.

Ocado Retail is the UK online grocery and general merchandise retail business serving a broad range of shopper missions, from large weekly shops to 'dinner-for-tonight' top-up shops. Ocado Retail is a 50% owned joint venture with Marks and Spencer Group plc ("M&S") and is fully consolidated into the Group's results.

Inter-segment eliminations represent the elimination of inter-segmental revenue and costs. These relate to transactions between Ocado Retail, and the Technology Solutions and Logistics businesses. Technology Solutions and Ocado Logistics each generate revenue from services provided to Ocado Retail, which are included as costs within the Ocado Retail segment. For 1H23, inter-segmental revenue eliminations were £341.2m (1H22: £314.2m). The increase of £27.0m is primarily due to incremental OSP fees charged to Ocado Retail by the Technology Solutions segment, due to an increase in the number of live modules. Inter-segmental EBITDA eliminations relate to amortised upfront fees paid by Ocado Retail to Technology Solutions, which are included within revenue in Technology Solutions. Ocado Retail capitalises these fees within fixed assets relating to the CFC assets; the associated depreciation is reported outside EBITDA.

Technology Solutions

£m	1H23	1H22	Change
Fees invoiced[1]	**202.8**	**144.0**	**40.8%**
Revenue	**198.2**	**124.7**	**58.9%**
Direct operating costs	(58.1)	(43.6)	33.3%
Contribution	**140.1**	**81.1**	**72.7%**
Contribution %	*71%*	*65%*	*6ppts*
Technology costs	(45.7)	(39.3)	16.3%
Support costs	(88.5)	(100.6)	(12.0)%
EBITDA*	**5.9**	**(58.8)**	**£64.7m**

1. Fees invoiced represent design and capacity fees invoiced during the period for existing and future site and in-store fulfilment (ISF) commitments. These are recognised in the Income Statement in accordance with IFRS 15 from the time when the site/ISF operation goes live.

Key performance indicators

The following table sets out a summary of selected operating information in the period:

	1H23	1H22	Change
No. of modules live[1,]	105	86	22.1%
Average modules live	101	75	34.7%
Cumulative no. of modules ordered[2,3]	232	221	5.0%
Direct operating cost (% of site sales)[4]	1.8%	2.1%	(0.3)%

1. A module is considered live when it has been fully installed and is available for use by our partner.
2. Ordered modules represent the maximum capacity of sites for which a contractual agreement has been signed with a partner and an invoice has been sent for the associated fees.
3. A module of capacity is assumed as approximately 5,000 eaches picked per hour and circa £73m per annum of partner sales capacity.
4. Direct operating costs as a % of site sales capacity reflects the exit rate position for all OSP CFCs live at the period end. Direct operating costs include engineering, cloud and other technology direct costs. The prior year has been updated in line with this definition (previously 1H22 was 2.4%).

As detailed above, the Technology Solutions segment now combines our UK and International Solutions businesses. Comparatives have been restated on a like-for-like basis.

During the first half of the year, the scale of our international operations has grown further with the milestone of our first CFC going live in the Asia-Pacific region for AEON in Chiba City, just outside Tokyo, and the third CFC for Sobeys going live in Calgary. UK capacity for Morrisons increased slightly within our existing facilities. We now have 25 live sites, comprising 21 CFCs and 4 Zooms, and building on the growth in the second half of FY22 the number of modules live year-on-year has grown by 22.1% to 105 live modules (1H22: 18 sites, 16 CFCs, 2 Zooms; 86 modules).

Fees and revenue

Fees invoiced increased by 40.8% to £202.8m (1H22: £144.0m). These fees include 1. the design and access fees invoiced across a number of clients relating to existing and future CFC and in-store fulfilment ("ISF") commitments, and 2. the recurring capacity fees associated with the live operations, primarily Ocado Retail, Kroger, Sobeys and Morrisons. Capacity fees increased in line with the increase in revenue. Design and access fees in 1H23 were lower than the prior year as fewer sites are going live in FY23, with two sites going live so far this year.

Under revenue recognition rules, design and access fees are not recognised as revenue until a working solution is delivered to the partner, i.e. the site goes 'live'. At the end of the period, cumulative fees not yet recognised as revenue, but instead recorded on the balance sheet within contract liabilities were £428.2m (FY22: £422.9m, 1H22: £390.3m).

Revenue in the period of £198.2m (1H22: £124.7m) includes ongoing capacity fees of £174.8m (1H22: £108.3m) and £15.9m (1H22: £9.9m) relating to the amortisation of design and upfront fees across our operational partners, primarily Ocado Retail, Kroger, Morrisons and Sobeys. Ongoing capacity fee revenue in Technology Solutions is driven by the average number of modules live in the period. In 1H23 there were 101 average modules live (1H22: 75), a growth of 34.7%. Revenue grew at a faster rate than live modules (+58.9%) due to the increased number of live OSP modules, which generate a higher fee per module of sales capacity (there are 29 legacy non-OSP modules within the 105 modules at the end of 1H23 that relate to Hatfield and Dordon and that generate a lower fee per module than an OSP module). Revenue includes £6.2m (1H22: £4.5m) relating to Kindred and equipment sales to retail partners of £1.3m (1H22: £1.9m) recognised as revenue under IFRS 15 (the cost of this equipment is recognised within direct operating costs).

Direct costs

Direct operating costs relate to the day-to-day costs of operating our CFC and Zoom sites, primarily engineering support, maintenance and spares, and the costs of hosting the technology services for partners. These costs increased by £14.5m (33.3%) to £58.1m (1H22: £43.6m) primarily driven by the 34.7% growth in average live modules. The exit rate of direct operating costs as a percentage of client sales capacity, a key measure of operational efficiency across sites, improved from 2.1% in 1H22 to 1.8% as the business continues to realise efficiencies through scale and optimisation initiatives. This led to an improvement in contribution margin from 65% to 71%.

Technology and support costs

Technology costs comprise mainly the non-capitalised management time spent on early-stage research projects, such as autonomous mobility, and maintaining the Ocado Smart Platform (OSP) through ongoing client support. Other costs include legal and professional fees and non-capitalised software costs. Technology costs in 1H23 were £45.7m (1H22: £39.3m), an increase of £6.4m mainly due to higher labour costs as we continue to invest in OSP. The increase also includes higher legal and advisory fees relating to the acquisition of 6 River Systems, announced in May 2023.

Support costs are costs incurred supporting the global operations of the business. These include a number of different activities including Sales and Partner Success, Finance, HR, IT and Legal. Costs reduced by £12.1m to £88.5m (1H22: £100.6m) driven by cost reductions across almost all areas and includes the one-off benefit of the sale of the Dartford Spoke site, which generated a profit on disposal of £5.0m. Under the revised segmentation Board costs of £13.3m (1H22: £15.3m) are included within Technology Solutions Support costs, this includes £7.4m of share-based payments (1H22: £9.5m).

EBITDA*

Technology Solutions achieved a positive EBITDA* for the period of £5.9m (1H22: loss of £58.8m), an improvement of £64.7m. The strong profit flow-through from the £73.5m growth in revenue reflects the high contribution margin of the OSP business and the benefit of cost reductions in Support costs.

Ocado Logistics

£m	1H23	1H22	Change
Cost recharges	318.5	317.3	0.4 %
Fee revenue	16.7	12.4	34.7 %
Revenue	**335.2**	**329.7**	**1.7 %**
Other income	6.9	6.7	3.0 %
Operational costs	(295.6)	(293.7)	0.6 %
Technology and support costs	(31.9)	(28.2)	13.1 %
EBITDA*	**14.6**	**14.5**	**£0.1m**

Key performance indicators

The following table sets out a summary of selected operating information in the period:

	1H23	1H22	Change
Total eaches (million)	595.9	611.9	(2.6)%
Orders per week (000s)	512	491	4.3%
OSP CFC UPH[1,2]	206	181	13.8%
Average deliveries per van per week[3]	182	177	2.8%

1. Measured as units dispatched from the CFC per variable hour worked by operational personnel.
2. OSP CFCs are all sites excluding Hatfield and Dordon.
3. Average deliveries per van per week represents Ocado Retail only, total deliveries by the average number of vans in the fleet

Ocado Logistics is a wholly owned third-party logistics business operating exclusively in the UK. This business manages and operates automated warehouses and the related supply chain and online delivery services on behalf of our two partners, Ocado Retail and Morrisons.

During the first half of FY23 average orders per week across our two partners increased by 4.3% to 512,000 orders per week (1H22: 491,000). While orders grew, the volume of eaches decreased by 2.6% to 596m (1H22: 612m). The decline in eaches reflects the changes in customer shopping behaviours towards smaller shopping baskets in the face of the high price inflation.

Revenue

This comprises 1. cost recharges, which are the recharge of variable and fixed costs incurred to provide fulfilment and delivery services, which are recharged to Ocado Retail and Morrisons, and 2. a 4% management fee charged on rechargeable costs and 3. capital recharges to Ocado Retail for the use of certain fixtures & fittings, and plant & machinery that were not transferred to Ocado Retail on its formation.

Fee revenue of £16.7m (1H22: £12.4m) increased by 34.7%, £4.3m and includes £11.6m of management fees (1H22: £11.7m) and £5.1m of capital recharges (1H22: £(0.2)m). The £4.3m increase in fee revenue is primarily due to an increase of £5.3m in capital recharges year-on-year due to the impact in 1H22 of a prior year adjustment. Management fees are around 4% of rechargeable costs and are broadly flat period-on-period in line with the movement in cost recharges.

Capital recharges of £5.1m (1H22: £(0.2)m) relate to charges to Ocado Retail for the use of certain assets that are owned by the group and utilised by Ocado Retail. For partner-shared sites (primarily Dordon and Erith) capital recharges are accounted for within revenue as we are providing a service.
For sites that are used exclusively by Ocado Retail (primarily Hatfield, Purfleet, Bristol and Andover), this income is included within finance income (below EBITDA) as we are providing a finance lease.

Cost recharges of £318.5m (1H22: £317.3m) increased by 0.4%. These costs represent the operational costs that are recharged to Ocado Retail and Morrisons for the provision of third-party logistics services. The key cost recharge driver is the volumes processed through the CFC sites. While orders per week increased by 4.3%, total eaches declined by 2.6%. Despite the decline in eaches, cost recharges increased by 0.4% due to labour and fuel price inflation and the negative impact of the smaller shopping baskets (resulting in fewer eaches delivered per van). These were partly offset by the improved efficiency from higher average number of units picked per labour hour ("UPH") in our OSP sites where UPH increased by 13.8% to 206 units per hour (1H22: 181). Cost recharges are greater than rechargeable costs as cost recharges include lease income for lease costs in shared sites, where we are providing a service, for which the cost is included below EBITDA.

Recharges and fees to Ocado Retail of £264.9m (1H22: £259.4m) included within the £335.2m revenue (1H22: £329.7m) are eliminated on consolidation.

Other income

Other income of £6.9m (1H22: £6.7m) relates to Erith and Dordon property rental income and MHE JVCo asset rental income. This is within Operating costs in the Consolidated Income Statement.

Fulfilment and delivery costs

These costs comprise the costs of fulfilment and delivery operations which are recharged to Ocado Retail and Morrisons. Total operational costs increased by 0.6% to £295.6m (1H22: £293.7m), against a reduction in eaches of 2.6% to 596m (1H22: 612m). However, orders per week grew by 4.3% to 512,000 (1H23: 491,000).

Costs increased, despite a reduction in the volume of eaches, due to the inefficiencies resulting from smaller baskets, and inflation in fuel and labour costs, partially offset by a year-on-year reduction in utilities unit costs and productivity improvements.

Productivity improvements are demonstrated by the improvement in UPH in OSP CFCs (Erith, Andover, Purfleet, Bristol and Bicester), which improved year-on-year to 206 in the period (FY21: 181), exceeding our target of 200 UPH. These productivity improvements enabled increased throughput of eaches, resulting in lower labour costs and partially offsetting the inefficiencies generated by smaller basket sizes.

Technology and support costs

Technology and support costs comprise 1. head office and related costs to operate the Logistics business, 2. technology costs related to the operating of our pre-OSP grocery fulfilment platform, and 3. the non-capitalised element of the programme costs to transition our UK partners from the pre-OSP technology platform to OSP. This programme is expected to be largely completed in 2024.

Technology and support costs increased by £3.7m to £31.9m (1H22: £28.2m) primarily due to investment in the final phase of the Ocado Retail transition to OSP. Head office costs and a portion of technology costs are recharged to our partners as part of our contractual agreements. The cost of operating the pre-OSP platform and the transition to OSP is not recharged to partners.

EBITDA*

EBITDA* for the period was £14.6m, an increase of £0.1m (1H22: £14.5m): the £5.3m increase in capital recharges was offset by the increase in non-recharged technology costs, as described above.

Ocado Retail

£m	**1H23**	**1H22**	**Change**
Revenue	**1,178.5**	**1,122.2**	**5.0%**
Gross profit	**389.9**	**385.4**	**1.2%**
Gross margin %	*33.1%*	*34.3%*	*(1.2)ppts*
Fulfilment and delivery costs	(237.7)	(234.1)	1.5%
Marketing costs	(20.1)	(26.6)	(24.4)%
Support costs	(49.0)	(31.3)	56.5%
Fees	(85.6)	(62.1)	37.8%
EBITDA*	**(2.5)**	**31.3**	**£(33.8)m**

The results of the Ocado Retail Limited joint venture (referred to as either "Ocado Retail" or "Retail") are fully consolidated in the Group. Costs in the Ocado Retail Income Statement have been reclassified to add clarity.

Key performance indicators

The following table sets out a summary of selected Ocado.com operating information in the period:

Ocado.com	**1H23**	**1H22**	**Change**
Active customers (000s)[1]	959	867	10.6%
Average orders per week (000s)[2]	392	377	4.0%
Average basket value (£)[3]	121.22	119.45	1.5%
Average selling price (£)[4]	2.72	2.51	8.4%

Average basket size (eaches)	45	48	(6.3)%

1. Active customers are classified as active if they have shopped at Ocado.com within the previous 12 weeks.
2. Average orders per week (000s) is for Ocado.com only. 1H22 has been restated to reflect this (under the previous approach 1H22 was 381,000, like-for-like orders per week would be 401,000, +5.2%)
3. Average basket value (£) is defined as product sales divided by total orders. 1H22 has been restated to reflect the update to no longer deduct cancelled orders on the road from total orders and change from gross sales to product sales (under the previous approach 1H22 was £120, 1H23: £122)
4. Average selling price (£) is defined as product sales divided by total eaches. 1H22 has been restated to reflect the update to no longer deduct cancelled orders on the road from total orders and change from gross sales to product sales (under the previous approach 1H22 was £2.52, 1H23: £2.73)

Revenue

Revenue increased by 5.0% to £1,178.5m (1H22: £1,122.2m) driven by growth in Ocado.com, with 4.0% order growth to 392,000 orders per week (1H22: 377,000 orders per week) and 1.5% growth in basket value to £121.22 (1H22: £119.45).

We have continued to win new customers through vouchering and marketing activity. We improved customer retention driven by our fair-value and competitive price proposition. We continue to focus on consistent and strong operational performance in key areas such as delivering on time and in full. Active customers now stand at 959,000, up by 10.6% from 867,000 at 1H22 (FY22: 940,000). Ocado has grown its share of the online grocery market to 13.0% (1H22: 12.7%) (Nielsen). As our customer base continues to grow, average orders per week have grown by 4.0% to 392,000 (1H22: 377,000).

The average basket value has grown by 1.5% to £121.22 (1H22: £119.45) driven by the increase in selling price of 8.4% to £2.72, partly offset by a reduction in the number of items purchased. In the face of cost-of-living pressures, shoppers are managing the overall value of their baskets and as a consequence items per basket have reduced by 6.3% to 45 items (1H22: 48).

We remain committed to offering fair value to customers and have not passed through the full impact of food price inflation to our customers; the average selling price on Ocado.com has increased by 8.4%, well below UK grocery inflation of 12.8% (according to Nielsen). In April 2022 we launched the Ocado Price Promise ("OPP"), a key component of our fair value strategy to support the growth and retention of our customers. OPP matches the price of like-for-like goods between Ocado.com and Tesco on over 10,000 lines; we aim for total baskets on Ocado.com to be the same price or less. Where this is not the case we send the customer a voucher for the difference.

Gross profit

Gross profit increased by 1.2% to £389.9m (1H22: £385.4m). Growth is lower than revenue growth as we invested in customer pricing to deliver fair value by not passing on all cost price increases to customers and investing in sales promotions. As a result of these dynamics, gross margin declined by 1.2 percentage points to 33.1% (1H22: 34.3%). The gross profit figure includes supplier-funded media income of £40.5m (1H22: £39.6m) and the cost of vouchers of £12.6m (1H22: £6.8m).

Fulfilment and delivery costs

£m	**1H23**	**1H22**	**Change**
CFC	(93.4)	(93.5)	(0.1)%
Service delivery	(130.2)	(125.1)	4.1%
Utilities	(14.1)	(15.5)	(9.0)%

Operational costs	**(237.7)**	**(234.1)**	**1.5%**

CFC costs primarily comprise labour costs in CFCs. These costs have remained broadly flat at £93.4m (1H22: £93.5m) despite the 4.0% growth in average orders per week. This improved efficiency has been achieved by again improving the productivity of our CFC sites. Units picked per hour ("UPH") across the network improved by 8.7% from 172 to 187. This has been offset by the costs of operating new Zoom sites, with four Zoom sites now operational (1H22: 2, FY22: 4).

The OSP sites have shown robust improvements in productivity reaching an average of 206 UPH (1H22: 181 UPH), an improvement of 13.8%. All of the mature sites (Erith, Andover, Purfleet, Bristol) achieved over 200 UPH in the period.

Service delivery costs comprise labour, fleet, fuel and related costs to enable the delivery of orders to customers. Costs have increased by 4.1% to £130.2m (1H22: £125.1m), primarily driven by the increased number of orders (+4.0%). Service delivery costs are driven by the productivity of each delivery van, measured in eaches per van, which has reduced by (8.3)% to 934 eaches (1H22: 1,019), as a result of smaller basket sizes, reducing efficiency in the fleet, and reflected in the service delivery costs growing at a higher amount (+4.1%) than the growth in orders (+4.0%).

Utilities costs across CFCs and service delivery have reduced by 9.0% to £14.1m (1H22: £15.5m) due to lower unit costs partially offset by an increase in the volume of electricity used (driven by the increased number of live modules year-on-year).

Marketing and support costs

Marketing costs comprise the cost of marketing activities to customers and exclude vouchering costs, which are within revenue. Costs decreased by £6.5m to £20.1m (1H22: £26.6m) as we optimised the marketing channel mix and improved marketing spend efficiency. Activities were focused on driving increased awareness of the Ocado value proposition. As a result, marketing spend as a percentage of revenue decreased to 1.7% (1H22: 2.4%).

Support costs of £49.0m (1H22: £31.3m) comprise head office, customer support and other overhead costs for Ocado Retail. The 1H22 costs of £31.3m benefitted from the £15.6m accrual release of the long-term management incentive provision. Excluding this, support costs have increased by £2.1m, primarily due to the write-off of £2.5m costs incurred while exploring new CFC or Zoom site opportunities that we have chosen not to pursue. We have held support costs broadly flat and mitigated the impact of wage inflation through headcount rationalisations.

Fees

Fees comprise 1. the OSP fees paid to Technology Solutions for the operation of the Ocado Smart Platform and 2. logistics management fees and capital recharges paid to Ocado Logistics. Fees of £85.6m (1H22: £62.1m) increased by £23.5m, driven by the impact of new sites and additional modules opened in FY22. Additions include the Bicester CFC, three Zooms (Leeds, Leyton and Canning Town) and additional module capacity in Andover and Purfleet.

EBITDA*

EBITDA* for the Retail business was a £2.5m loss (1H22: £31.3m profit). The primary drivers for the £33.8m period-on-period movement are the absence of the one-off accrual release in 1H22 of the £15.6m costs of a management incentive scheme, the increase in OSP fees for new capacity and the unabsorbed fixed costs of excess capacity. Notwithstanding the £2.5m EBITDA loss in the period, EBITDA is on an improving trend, with each of the last three months delivering positive EBITDA.

Exceptional items

£m	1H23	1H22
UK network capacity review	(38.7)	-
Litigation costs	(9.1)	(11.1)
Organisational restructure	(7.8)	-
Ocado Group Finance transformation	(3.5)	(4.0)
Ocado Retail IT systems transformation	(0.7)	(3.2)
Changes in fair value of contingent consideration	(17.4)	5.1
Andover CFC	-	(0.1)
Erith CFC	-	6.3
Total exceptional items	**(77.2)**	**(7.0)**

UK network capacity review
In April 2023, the Group announced its intention to cease operations in its CFC in Hatfield. This decision was made as part of a wider review of the total UK network capacity. As a result, the Group has recorded provisions for restructuring costs of £11.0m, onerous contracts of £4.1m and other costs of £3.2m, as well as an impairment charge of £20.4m (RoU assets £13.3m; PP&E £7.1m). These costs almost entirely relate to the ceasing of operations at our Hatfield CFC, which is currently planned for September 2023.

Litigation costs
Litigation costs during the year were exclusively those costs incurred on the patent infringement litigation between the Group and AutoStore Technology AS ("AutoStore"). The costs during the period were £9.1m (1H22: £11.1m). Please note the Subsequent Event in respect of AutoStore litigation costs highlighted at the end of this report.

Ocado Group Finance transformation
Following the Group's implementation of various Software as a Service ("SaaS") solutions in 2H21, primarily the Oracle Fusion implementation, the Group is carrying out a programme that focuses on optimising and enhancing the existing SaaS solutions and related finance processes. This programme is expected to complete in 1H24 and will deliver cost efficiencies across the business. The cumulative 'finance transformation' costs expensed to date amount to £10.5m and include £3.5m in 1H23 (1H22: £4.0m).

Ocado Retail IT systems transformation
In FY21, Ocado Retail Limited ("Retail") initiated its IT Roadmap programme, which focuses on delivering IT systems and services that will enable Retail to meet its obligation to transition away from Ocado Group IT services, tools and support. The IT Roadmap programme which is expected to run until the end of FY23, includes the development of both on-premises and SaaS solutions. The IT Roadmap programme costs that meet assets recognition criteria will be recognised as intangible assets, and implementation costs that do not meet assets recognition will be expensed. The cumulative costs expensed to date amount to £9.3m. These costs have been classified as exceptional because they are expected to be significant and result from a transformational activity which is considered only incremental to the core activities of the Group.

Change in fair value of contingent consideration
In FY19, the Group sold Marie Claire Beauty Limited ("Fabled") to Next plc and 50% of Retail to Marks and Spencer Group plc ("M&S"). Part of the consideration for these transactions was contingent on future events. The Group holds contingent consideration at fair value through profit or loss and revalues it at each reporting date. A loss on revaluation of £17.4m (1H22: gain of

£5.1m) is reported through exceptional items and is due to a £17.0m reduction in the estimated contingent consideration receivable from M&S. Refer to note 9 for further details.

Organisational restructure
During the period, the Group partially reorganised its head office and support functions, resulting in redundancies of around 250 heads and related costs of £7.8m. This followed an initial reorganisation in 2H22 which incurred costs of £3.0m, with net cumulative costs to date of £10.8m. These costs have been classified as exceptional on the basis that the aggregate costs are considered to be significant and resulted from a strategic restructuring which is only incremental to the normal operating activities of the Group.

Tax impact on exceptional items
The change in fair value of contingent consideration receivable is not subject to tax. The remaining exceptional items are taxable or tax deductible and give rise to a tax credit of £13.8m of which £nil (1H22: £0.6m) has been recognised. The tax credit has not been recognised as it relates to tax losses which are not recognised for deferred tax purposes.

Other items below EBITDA*

Depreciation, amortisation and impairment

Total depreciation, amortisation and impairment costs were £192.5m (1H22: £157.3m), an increase of £35.2m, or 22.4% year-on-year. This includes 1. depreciation of property, plant and equipment of £95.8m (1H22: £76.6m), 2. depreciation of right-of-use assets of £35.5m (1H22: £33.9m), 3. amortisation expense of £59.7m (1H22: £46.4m) and 4. impairment costs of £1.5m (1H22: £0.4m).

The increase was primarily driven by the full-year depreciation of seven sites that went live within the previous 12 months and the annualisation of seven sites that went live during 1H22 (£16.5m; including right-of-use leases). The other key driver of the movement was the amortisation of technology projects going live in the last 12 months (£12.4m). The balance relates to impairments and module draw-down in existing CFC sites.

Net finance costs

Net finance costs of £36.4m increased by £3.0m (1H22: £33.4m). Net finance costs include Finance costs of £56.0m (1H22: £43.5m) and Finance income of £19.6m (1H22: £10.1m).

Finance costs of £56.0m (1H22: £43.5m) mainly comprise:
- Interest expense on **borrowings** of £33.3m (1H22: £29.5m), which increased by £3.8m primarily due to 1. incremental fees on the RCF (agreed in June 2022) and 2. interest expense on the shareholder loan from M&S to Ocado Retail.
- Interest expense on **lease liabilities** of £13.1m (1H22: £13.5m).
- A **revaluation of financial assets** of £4.0m (1H22: £nil) as the Group's warrants held in Karakuri and loan notes to Karakuri have been written off as Karakuri has entered into administration
- **Net foreign exchange losses** of £5.0m (1H22: £8.2m gain), largely in respect of USD balances held.

Total borrowings at the end of the period were £1,393.2m (1H22: £1,315.7m). Total lease liabilities at the end of the period were £516.0m (1H22: £525.8m).

Share of results from joint ventures and associates

The Group has accounted for a £0.9m loss (1H22: £0.5m loss) for the **share of results from joint ventures and associates.**

The group has two joint ventures (Ocado Retail and the MHE JVCo) and one associate (Karakuri). The results of the Ocado Retail joint venture are fully consolidated within the Ocado Group.

- **MHE JVCo** is a 50/50 joint venture with Morrisons and holds the Dordon CFC MHE assets which Ocado Retail and Morrisons use to service their online businesses. The Group's share of MHE JVCo loss after tax in the period amounted to £0.1m (1H22: £nil).
- **Karakuri Limited** is an associate and the Group's 26.3% interest in Karakuri contributed a loss of £0.8m in the period (1H22: £0.5m loss). Karakuri appointed administrators in June 2023 and the £0.8m share of losses in the period resulted in the remaining investment of £0.8m being written down to £nil value. The £4.0m revaluation of equity investments (above) is in respect of other assets related to Karakuri but not recorded directly in investments in associates.

Statutory loss before tax

Statutory loss before tax of £289.5m (1H22: loss of £211.3m) reflects an EBITDA* profit of £16.6m (1H22: loss of £13.6m), depreciation, amortisation and impairment of £192.5m (1H22: £157.3m), net finance costs of £36.4m (1H22: £33.4m) and net exceptional costs of £77.2m (1H22: £7.0m costs).

Taxation

The Group reported a total tax credit in the Income Statement for the period of £14.1m (1H22: £0.8m). This amount includes a UK corporation tax charge of £0.4m (1H22: credit of £3.1m) in respect of overseas entities. A deferred tax credit of £14.5m (1H22: charge of £3.9m) was recognised in the period).

Deferred tax assets decreased due to the derecognition of losses mainly in Ocado Retail. Deferred tax liabilities decreased due to the removal of deferred tax on consolidation following an intercompany transfer of intangible assets from Haddington and Kindred to Ocado Innovation Ltd.

At the end of the period, the Group had £1,165.6m (1H22: £904.7m) of unutilised carried-forward tax losses.

Dividend

During the period, the Group did not declare a dividend (1H22: £nil).

Loss per share

Basic and diluted loss per share were (28.65)p (1H22: (28.67)p).

Capital expenditure

Capital expenditure was £283.6m in the period (1H22: £366.8m), a reduction of £83.2m, primarily driven by a decrease in the number of CFCs and new modules under construction. Capital expenditure primarily comprises new site construction costs and technology development costs to enhance OSP.

An analysis of capital expenditure by key categories is presented below:

£m	1H23	1H22	Change
CFC sites	142.6	195.7	(27.1)%

Technology	102.6	86.3	18.9%
Group support and other	21.5	29.1	(26.1)%
Technology Solutions	**266.7**	**311.1**	**(14.3)%**
Logistics	**6.6**	**9.7**	**(32.0)%**
Retail	**12.7**	**61.8**	**(79.4)%**
Eliminations	**(2.4)**	**(15.8)**	**(84.8)%**
Group capital expenditure	**283.6**	**366.8**	**(22.7)%**

Technology Solutions

CFC sites capital expenditure relates to the construction of new CFCs and Zoom sites and was £142.6m in the period, a decrease of £53.1m (1H22: £195.7m). The investment predominantly relates to the launch of the two CFCs which went live in 1H23 together with five further sites under construction. The reduction in site capital expenditure is driven by the number of sites in construction reducing from 12 at the end of 1H22 to 5 at the end of 1H23.

Technology development spend of £102.6m (1H22: £86.3m) was driven by the continued investment in OSP with a focus on delivering the Re:Imagined product innovation announced in January 2022. Re:Imagined includes seven key innovations: the 600 series bot, the 600 grid and optimised site design, Automated Frameload, On-Grid Robotic Pick, Ocado Orbit, Ocado Swift Router and Ocado Flex.

Technology headcount grew slightly in the period from around 2,600 heads to around 2,700 heads. We continue to focus on enhancing our customer proposition to deliver world-class end-to-end grocery ecommerce and fulfilment solutions. OSP includes ecommerce, order management, forecasting, routing and delivery, automated storage and retrieval systems (ASRS), dexterous robotics and other material handling elements.

Group support and other capital expenditure comprise projects relating to support costs systems and infrastructure and includes capital expenditure in our venture businesses. Capital expenditure of £21.5m is £7.6m lower than last year (1H22: £29.1m) as we have now completed several key investments in support function systems and infrastructure. The single largest item within the total spend of £21.5m is the £11.9m incurred in respect of Jones Food's second vertical farm, based in Lydney, Gloucestershire and that went live in June 2023 (Jones Food for 1H22: £4.6m). Jones Food results are fully consolidated within the results of the Group.

Logistics

Capital expenditure of £6.6m (1H22: £9.7m) largely relates to technology system development of £6.6m (1H22: £8.9m).

Retail

Capital expenditure of £12.7m (1H22: £61.8m) largely comprises CFC construction costs recharged from Ocado Group, along with design and set-up fees for new sites and IT project costs. Design and set-up fees of £2.4m (1H22: £15.8m) charged in the period to Ocado Retail from Technology Solutions are eliminated on consolidation of the Group and principally relate to Zoom sites. This has reduced year-on-year as no new sites have opened or been committed to in the period.

Capital expenditure in Retail decreased by £49.1m due to a reduction in new CFC investment following the opening in FY22 of the Bicester CFC and the Zoom sites in Leeds and Leyton. During the period CFC investment was primarily related to building the new Luton CFC which is expected to go live in the second half of FY23.

Eliminations

The elimination of capital expenditure comprises the design and set up fees charged to Ocado Retail by Technology Solutions (those fees charged to Ocado Retail are eliminated on consolidation of the Group).

Cash flow

£m	1H23	1H22
EBITDA*	**16.6**	**(13.6)**
Movement in contract liabilities	23.7	43.1
Other working capital movements	(9.5)	22.9
Finance costs paid	(28.1)	(27.3)
Taxation received/(paid)	1.4	(0.5)
Insurance proceeds relating to business interruption	-	10.0
Exceptional items	(21.1)	(18.3)
Other non-cash items	0.6	(10.6)
Operating cash flow	**(16.4)**	**5.7**
Capital expenditure	(288.8)	(387.8)
Insurance proceeds relating to rebuilding Andover CFC	-	5.0
Net proceeds from interest-bearing loans and borrowings	4.3	-
Repayment of lease liabilities	(32.1)	(23.1)
Proceeds from share issues	1.3	1.8
Other investing and financing activities	18.5	0.7
Movement in cash and cash equivalents (excl. FX changes)	(313.2)	(397.7)
Effect of changes in FX rates	(6.3)	11.8
Movement in cash and cash equivalents (incl. FX changes)	**(319.5)**	**(385.9)**

The movement in **cash and cash equivalents** (including FX changes) was a reduction of £319.5m (1H22: reduction of £385.9m). There was an improvement in cash outflow of £66.4m year-on-year.

EBITDA* (as explained above) improved by £30.2m to £16.6m (1H22: loss of £13.6m).

Operating cash flow reduced by £22.1m to an outflow of £16.4m (1H22: inflow of £5.7m). The key drivers of this decline are explained below:

- **Contract liabilities: cash inflow of £23.7m** (1H22: £43.1m inflow) relating to upfront design and access fees paid by partners. Design fees are typically paid in instalments during the CFC construction process. The cash inflow is lower than the prior year primarily due to the timing of design fee instalment payments and fewer CFCs going live in the period.
- **Working capital: cash outflow of £9.5m** (1H22: £22.9m inflow) primarily driven by lower trade and other payables of £(36.4)m mainly due to the timing of payroll run at the period-end (in the prior period last year the monthly payroll run was after the period-end and the payment was accrued). This was partially offset by a reduction in inventories of £16.0m reflecting the reduction of Ocado Retail stock after the busy Christmas period, in combination with the seasonal decline in stock levels ahead of the summer holiday period. The reduction also reflects an improvement in Ocado Retail stock forecasting and active management of stock levels. Trade and other receivables have been reduced by £10.9m.
- **Finance costs: cash outflow of £28.1m** (1H22: £27.3m outflow) comprise £15.0m interest and charges on borrowings (1H22: £13.8m) and £13.1m for the interest element of assets held under finance leases (1H22: £13.5m).
- **Taxation: cash inflow of £1.4m** (1H22: outflow of £0.5m) reflects a tax refund received by Ocado Retail, partially offset by taxation payments by foreign subsidiaries. No UK tax was paid in the period.
- **Exceptional items: cash outflow of £21.1m** (1H22: outflow of £18.3m) relates to cash-settled exceptional items and comprise the following:
    - £9.1m (1H22: £11.1m) in relation to litigation costs;
    - £7.8m (1H22: £nil) organisational restructuring costs;
    - £3.5m (1H22: £4.0m) Finance transformation and SaaS implementation costs;
    - £0.7m (1H22: £3.2m) Ocado Retail IT systems transformation costs.
- **Other non-cash items: inflow of £0.6m** (1H22: outflow of £10.6m) relates to adjustments for the following non-cash elements of EBITDA:
    - £(13.1)m (1H22: £(12.7)m revenue recognised from long-term contracts;
    - £16.1m (1H22: £21.1m) of share-based payments;
    - £0.4m (1H22: £nil) non-cash write off of property, plant and equipment;
    - £(5.0)m (1H22: £nil) gain on the disposal of property, plant and equipment. The proceeds from the disposal are included in other investing and financing activities;
    - £0.9m (1H22: £0.5m) share of losses from joint ventures and associates;
    - £1.2m (1H22: £(19.6)m) movement in provisions. The movement in the prior year reflects the release of the Ocado Retail long-term management incentive plan.

The movements above result in an **operating cash outflow of £16.4m** (1H22: cash inflow £5.7m). The following movements explain the overall movement in cash and cash equivalents outflow of £319.5m (1H22: outflow of £385.9m):

- **Capital expenditure of £288.8m** (1H22: £387.8m) primarily relates to the continued investment in OSP and in new CFCs in the UK and internationally. Capital expenditure also includes investment in group support activities. The year-on-year reduction of £99.0m is primarily driven by the reduced number of sites in construction; currently, five sites are under construction (1H22: 12 sites under construction).
- **Net proceeds from interest-bearing loans and borrowings of £4.3m** (1H22: £nil) primarily reflect 1. £10.0m shareholder loan from M&S to Ocado Retail, 2. £(10.0)m RCF repayment by Ocado Retail, and 3. £4.3m loan drawn down by Jones Food.
- **Lease liability repayments of £32.1m** (1H22: £23.1m), an increase of £9.0m year-on-year driven by an increase in motor vehicle leases, new site leases and two new Ocado Zoom sites in Leeds and Leyton. The increase also includes a number of rent reviews.

- **Net proceeds from share issue of £1.3m** (1H22: £1.8m) are in respect of employee share schemes.
- **Other investing and financing activities £18.5m** (1H22: £0.7m) include £18.2m (1H22: £0.7m) of interest received on treasury deposits, £9.4m (1H22: £nil) proceeds from the disposal of assets held for sale and £0.9m (1H22: £nil) cash contingent consideration received in respect of the sale of Fabled to Next plc. This was offset by investments in Oxbotica of £10.0m (1H22: £nil).
- **Effect of changes in FX rates** of £(6.3)m (1H22: £11.8m) relates to the FX loss (reported under net finance costs) and translation FX on cash balances (predominantly USD cash balances held to fund the expansion of our Technology Solutions business in the USA).

Underlying cash outflow* is £287.7m (1H22: £396.2)m and improved by £108.5m year-on-year. Underlying cash flow is the movement in cash and cash equivalents excluding the impact of exceptional items, costs of financing, investment in unlisted equity investments and FX movements.

£m	1H23	1H22
Movement in cash and cash equivalents	**(319.5)**	**(385.9)**
Exceptional items	21.1	18.3
Insurance proceeds relating to business interruption	-	(10.0)
Insurance proceeds relating to rebuilding Andover CFC	-	(5.0)
Financing	(5.6)	(1.8)
Investment in unlisted equity investments	10.0	-
Effect of changes in FX rates	6.3	(11.8)
Underlying cash outflow*	**(287.7)**	**(396.2)**

Net Assets

£m	1H23	1H22	FY22
Assets			
Goodwill	161.8	152.6	164.7
Other intangible assets	413.6	385.4	377.2
Property, plant and equipment	1,832.9	1,495.8	1,777.8
Right-of-use assets	460.8	481.7	493.9
Investment in joint venture and associates	14.6	26.0	15.6
Trade and other receivables	308.9	324.7	329.3
Cash and cash equivalents	1,008.5	1,082.7	1,328.0
Other financial assets	194.8	218.2	185.4
Inventories	85.7	78.9	106.8

Other assets	7.2	29.6	34.5
Total assets	**4,488.8**	**4,275.6**	**4,813.2**
Liabilities			
Contract liabilities	(428.2)	(390.3)	(422.9)
Trade and other payables	(456.7)	(412.8)	(508.2)
Borrowings	(1,393.2)	(1,315.7)	(1,372.8)
Lease liabilities	(516.0)	(525.8)	(532.3)
Other Liabilities	(48.2)	(62.4)	(42.7)
Total liabilities	**(2,842.3)**	**(2,707.0)**	**(2,878.9)**
Net assets	**1,646.5**	**1,568.6**	**1,934.3**

Assets

Goodwill of £161.8m (FY22: £164.7m) represents the future benefit to Ocado Group from the prior acquisitions of Kindred Systems Inc., Haddington Dynamics Inc., Myrmex Inc. and Jones Food Company. This future benefit derives from the development of new technology, the ability to attract new customers and cost synergies. Goodwill decreased by £2.9m in the year due to the foreign exchange impact of the revaluation of the goodwill (predominantly USD-denominated).

Other intangible assets of £413.6m increased by £36.4m (FY22: £377.2m) primarily due to capitalised internal development costs relating to the build-out of our technology capabilities for our partners, across our CFC, Zoom and ISF solutions, along with the capitalisation of software costs.

Property, plant and equipment net book value increased by £55.1m to £1,832.9m (FY22: £1,777.8m) and comprise fixtures, fittings, plant and machinery of £1,636.0m (FY22: £1,577.2m), land and buildings of £193.5m (FY22: £197.5m) and motor vehicles of £3.4m (FY22: £3.1m).

- Fixtures, fittings, plant and machinery predominantly comprise the material handling and other operating equipment within our sites.
    - This increased by £58.8m to £1,636.0m driven by £169.6m of additions (FY22: £489.9m) primarily relating to the go-live of two sites for our client partners including AEON and Sobeys.
    - Internal development costs of £17.2m were capitalised related to OSP technology development and deployment.
    - These increases were partly offset by depreciation of £94.5m, net foreign exchange movements of £26.9m, impairment of £8.5m and other smaller movements.
- Land and buildings comprise CFC and Zoom sites in the UK, spokes and offices. The net book value decreased by £4.0m to £193.5m due to the reclassification of certain assets to fixtures, fittings, plant and machinery.
- Motor vehicles primarily comprise the vehicles owned by Ocado Group in relation to CFC and head office operations.

Right-of-use assets of £460.8m (FY22: £493.9m) represents the asset value of assets held under long-term leases, comprising land and buildings of £388.0m (FY22: £415.0m), motor vehicles of

£61.0m (FY22: £63.1m) and fixtures, fittings, plant and machinery of £11.8m (FY22: £15.8m). During the year the Group entered into new leases for assets of £17.5m, which comprise land and buildings of £5.8m, motor vehicles of £9.1m and fixtures, fittings, plant and machinery of £2.6m. The depreciation charge for the period was £(35.6)m and an impairment charge of £(13.3)m was recognised in relation to the closure of the Hatfield CFC.

Investment in joint ventures and associates includes the Group's 50% investment in MHE JVCo and the Group's 26.3% investment in Karakuri (both no change in percentage holding from the prior year). During the period, the Group's investment in Karakuri was reduced from £1.8m to £nil with the carrying amount at the end of the period of £14.6m relating solely to the investment in MHE JVCo.

Trade and other receivables reduced by £20.4m to £308.9m (FY22: £329.3m). The balance comprises the following:

- Trade receivables (net of expected credit loss allowance) of £83.2m (FY22: £124.2m), which predominantly comprise balances due from Solutions customers and commercial and media income in Retail. The decrease of £41.0m is mainly driven by the timing of media and promotional invoices raised that is offset by the increase in accrued income (as detailed below) and cash receipts from our partners.
- Other receivables of £65.7m (FY22: £82.7m). Other receivables largely comprise tax refunds due and receivables expected from contract manufacturers for components sourced on their behalf. The decrease of £17.0m is mainly driven by corporation tax and VAT refunds and tax credit receipts in respect of research and development.
- Prepayments of £85.7m (FY22: £76.5m). Prepayments typically include CFC components, software maintenance payments and vehicle maintenance payments. The £9.2m increase is mainly driven by prepaid rates, utilities, insurance premiums and software maintenance. This is offset by a reduction in prepaid CFC components.
- Accrued income of £74.3m (FY22: £45.9m) primarily relates to accrued income for media and promotions, solutions capacity fees, and volume-related rebates. The increase is mainly driven by accrued media and promotional income and accrued fee income from our partners.

Cash and cash equivalents were £1,008.5m (FY22: £1,328.0m) at the end of the period. Gross debt (including lease liabilities) at the period end was £1,909.2m (FY22: £1,905.1m), with net debt* at the period-end of £(900.7)m (FY22: £(577.1)m). In May, the Group renegotiated the covenant terms on the RCF with its banking group in order to provide additional flexibility around access to the facility. Current borrowing facilities mature in FY26 and FY27 with repayment due in December 2025 (£600m convertible bond), October 2026 (£500m Senior Unsecured Notes) and January 2027 (£350m convertible bond). These facilities are expected to be refinanced on a timely basis to maintain appropriate liquidity.

Other financial assets of £194.8m (FY22: £185.4m) comprise mainly the contingent consideration receivable from M&S on the 50% sale of Ocado Retail and unlisted equity investments held by the Group in Oxa Autonomy Ltd ("Oxa Autonomy"), previously Oxbotica Limited, Wayve Technologies and 80 Acres.

The increase of £9.4m is primarily due to the increase in the Group's investment in Oxa Autonomy. In December 2022, Oxa Autonomy successfully completed its Series C Fundraising, which resulted in the Group's warrants being exercised to acquire 21,934 series-B shares for £10.0m. Following the exercise of the warrants, the Group now holds a 12.2% interest in Oxa Autonomy. At 1H23, the unlisted equity investment in Oxa Autonomy totals £66.2m (FY22: £36.8m; 1H22: £10.3m). The fair value of the warrants prior to the transaction was £19.4m, which together with the exercise cost of £10.0m comprises the £29.4m increase in the Group's equity investment in Oxa Autonomy.

We have re-estimated the fair value of the contingent consideration due from M&S at the balance sheet date based on the probability weighting of a series of scenarios that consider the current market uncertainty in the grocery sector and Retail's current trading performance. As a result of this assessment, we have reduced the value of the contingent consideration by £17.0m to £78.0m (FY22: £95.0m).

Inventories of £85.7m (FY22: £106.8m) reduced by £21.1m and comprised mainly goods held for resale (largely Retail grocery inventory) which decreased by £21.3m to £67.9m (FY22: £89.2m).

Other assets of £7.2m (FY22: £34.5m) relate primarily to share warrants that have a carrying value of £5.8m (FY22: £27.4m), and which have decreased by £21.6m mainly due to the exercise of share warrants for Oxbotica of £19.4m and impairment of Karakuri warrants of £2.1m.

Liabilities

Contract liabilities of £428.2m (FY22: £422.9m) primarily relate to the consideration received in advance from Technology Solutions customers. Revenue is then recognised when the performance obligation is satisfied, typically when a site goes live. Contract liabilities reflect amounts invoiced to partners for their contracted contribution towards the initial MHE investment made in a site, and increased by £18.8m during the year (1H22: £24.5m). This was partly offset by £13.5m (1H22: £12.7m) in respect of prior receipts recognised as revenue in the year. The current contract liabilities balance of £32.0m (FY22: £29.1m) represents amounts due to be recognised as revenue within 12 months of the year-end.

Trade and other payables of £456.7m (FY22: £508.2m) reduced by £51.5m, mainly due to the timing of the monthly payroll run and reduced accruals for capital expenditure.

Borrowings of £1,393.2m (FY22: £1,372.8m) comprise the liability element of the two unsecured convertible bonds, the senior unsecured bond and the shareholder loan provided by M&S (the non-controlling interest) to Ocado Retail. The increase of £20.4m due to 1. £16.4m accrued interest on bonds held at amortised cost, 2. £10.0m shareholder loan provided by M&S (the non-controlling interest) to Ocado Retail, 3. £4.3m loan drawn by Jones Food, and 4. £(10)m repayment of RCF by Retail.

Lease liabilities of £516.0m (FY22: £532.3m) comprise land and buildings of £439.2m (FY22: £441.4m), motor vehicles of £63.2m (FY22: £65.5m) and fixtures, fittings, plant and machinery of £13.6m (FY22: £25.4m). New lease liabilities of £18.3m were entered into during the year (1H22: £24.4m) and largely comprised motor vehicles and land and buildings. Lease liabilities decreased by payments made of £45.2m (1H22: £36.9m) and £(2.5)m of other movements, partly offset by £13.1m of accrued interest (1H22: £13.5m).

Lease liabilities of £516.0m (FY22: £532.3m) include £9.0m (FY22: £17.5m) payable to MHE JVCo, a company in which the Group holds a 50% interest.

Other liabilities of £48.2m (FY22: £42.7m) comprise:

- Provisions of £46.4m (FY22: £26.4m). The £20.0m increase in provisions mainly reflects exceptional costs in relation to the closure of the Hatfield CFC
- Derivative financial liabilities of £1.8m (FY22: £1.6m).
- Deferred tax liabilities of £nil (FY22: £14.7m). The £14.7m decrease is due to the removal of deferred tax on consolidation following an intercompany transfer of intangible assets from Haddington and Kindred to Ocado Innovation Ltd

Subsequent events

Acquisition of 6 Rivers Systems

On 4 May 2023 the Group announced the agreement with Shopify Inc. to acquire 6 River Systems LLC ("6RS"), a collaborative Autonomous Mobile Robot ("AMR") fulfilment solutions provider to the logistics and non-grocery retail sectors, based in Massachusetts, USA. 6RS was founded in 2015 and has developed an Autonomous Mobile Robot product called 'Chuck' that provides automated assistance to pickers in a warehouse, working collaboratively with human operators. Chuck robots are currently deployed in over 100 warehouses worldwide, with more than 70 customers. The acquisition was completed on 30 June 2023 for a cash consideration of £10.0m (US$12.7m). 6RS will become part of Ocado Intelligent Automation and its results reported within Technology Solutions.

AutoStore litigation cost recovery

Following Ocado's victory in the UK High Court as part of the ongoing litigation with AutoStore, on 29 June 2023 the UK High Court issued a formal order stating that Ocado infringes none of the AutoStore patents and that AutoStore bot patents are invalid and revoked. The UK High Court also ordered that AutoStore pay Ocado £6.7m in costs in relation to the UK High Court trial. As is usual in patent cases, AutoStore has been given the option to appeal.

Condensed Consolidated Financial Statements

Condensed Consolidated Income Statement

for the 26 weeks ended 28 May 2023

		26 weeks ended 28 May 2023 (unaudited)			26 weeks ended 29 May 2022 (unaudited) - (restated[1])		
		Before exceptional items	**Exceptional items (Note 5)**	**Total**	Before exceptional items	Exceptional items (Note 5)	Total
	Notes	**£m**	**£m**	**£m**	£m	£m	£m
Revenue	4	1,370.7	-	1,370.7	1,262.4	-	1,262.4
Insurance proceeds		-	-	-	-	6.3	6.3
Operating costs		(1,545.7)	(77.2)	(1,622.9)	(1,432.8)	(13.3)	(1,446.1)
Operating loss before results from joint ventures and associate		**(175.0)**	**(77.2)**	**(252.2)**	**(170.4)**	**(7.0)**	**(177.4)**
Share of results from joint ventures and associate		(0.9)	-	(0.9)	(0.5)	-	(0.5)
Operating loss		**(175.9)**	**(77.2)**	**(253.1)**	**(170.9)**	**(7.0)**	**(177.9)**
Finance income	7	19.6	-	19.6	10.1	-	10.1
Finance costs	7	(56.0)	-	(56.0)	(43.5)	-	(43.5)
Loss before tax		**(212.3)**	**(77.2)**	**(289.5)**	**(204.3)**	**(7.0)**	**(211.3)**
Taxation		14.1	-	14.1	(1.4)	0.6	(0.8)
Loss for the period		**(198.2)**	**(77.2)**	**(275.4)**	**(205.7)**	**(6.4)**	**(212.1)**
Attributable to:							
Owners of Ocado Group plc				(233.7)			(212.5)

Non-controlling interests		(41.7)	0.4
		(275.4)	**(212.1)**

Loss per share		**Pence**	Pence
Basic and diluted loss per share	6	**(28.65)**	(28.67)

1. During the period, the Group changed the presentation of its expenses. Consequently, the prior year comparatives have been restated. See Note 3 for the details of the restatement.

Earnings before interest, taxation, depreciation, amortisation, impairment and exceptional items (EBITDA*)

	Note	**26 weeks ended 28 May 2023 £m (unaudited)**	26 weeks ended 29 May 2022 £m (unaudited)
Operating loss		(253.1)	(177.9)
Adjustments for:			
Exceptional items*	5	77.2	7.0
Amortisation of intangible assets		59.7	46.4
Impairment of intangible assets		0.1	-
Depreciation of property, plant and equipment		95.8	76.6
Impairment of property, plant and equipment		1.4	0.4
Depreciation of right-of-use assets		35.5	33.9
EBITDA*		**16.6**	**(13.6)**

* See Alternative performance measures in Note 16 for further information.

Condensed Consolidated Statement of Comprehensive Income

for the 26 weeks ended 28 May 2023

	26 weeks ended 28 May 2023 £m (unaudited)	26 weeks ended 29 May 2022 £m (unaudited)
Loss for the period	**(275.4)**	**(212.1)**
Other comprehensive income:		
Items that may be reclassified to profit or loss in subsequent years:		
(Loss)/gain arising on cash flow hedges	(1.0)	4.6
Foreign exchange (loss)/gain on translation of foreign subsidiaries	(28.8)	43.6
Net other comprehensive (expense)/income that may be reclassified to profit or loss in subsequent periods	**(29.8)**	**48.2**
Items that will not be reclassified to profit or loss in subsequent periods:		
Gains on equity instruments designated as fair value through other comprehensive income	-	0.2
Net other comprehensive income that will not be reclassified to profit and loss in subsequent periods	-	0.2
Other comprehensive (expense)/income for the period, net of tax	**(29.8)**	**48.4**
Total comprehensive expense for the period	**(305.2)**	**(163.7)**
Attributable to:		
Owners of Ocado Group plc	(263.5)	(164.1)
Non-controlling interests	(41.7)	0.4
	(305.2)	**(163.7)**

Condensed Consolidated Balance Sheet

as at 28 May 2023

	Notes	**28 May 2023 £m (unaudited)**	29 May 2022 £m (unaudited)	27 November 2022 £m (audited)
Non-current assets				
Goodwill		161.8	152.6	164.7
Other intangible assets		413.6	385.4	377.2
Property, plant and equipment		1,832.9	1,495.8	1,777.8
Right-of-use assets		460.8	481.7	493.9
Deferred tax assets		1.4	8.9	1.9
Costs to obtain contracts		-	0.7	-
Other financial assets	9	193.3	217.3	181.6
Investment in joint ventures and associates		14.6	26.0	15.6
Derivative financial assets	10	5.8	10.5	27.4
		3,084.2	**2,778.9**	**3,040.1**
Current assets				
Inventories		85.7	78.9	106.8
Contract assets		-	0.1	-
Costs to obtain contracts		-	0.1	-
Trade and other receivables		308.9	324.7	329.3
Derivative financial assets	10	-	4.9	0.8
Other financial assets	9	1.5	0.9	3.8
Cash and cash equivalents	8	1,008.5	1,082.7	1,328.0
		1,404.6	**1,492.3**	**1,768.7**
Asset held for sale		-	4.4	4.4
		1,404.6	**1,496.7**	**1,773.1**
Total assets		**4,488.8**	**4,275.6**	**4,813.2**
Current liabilities				
Trade and other payables		(456.3)	(412.3)	(506.3)
Borrowings	8	(0.4)	-	(10.2)
Contract liabilities		(32.0)	(25.3)	(29.1)
Lease liabilities	8	(59.4)	(61.3)	(58.6)
Provisions	12	(20.0)	(1.1)	(1.0)
Derivative financial liabilities	10	(1.8)	-	(1.6)
		(569.9)	**(500.0)**	**(606.8)**
Net current assets		**834.7**	**996.7**	**1,166.3**
Non-current liabilities				
Contract liabilities		(396.2)	(365.0)	(393.8)
Borrowings	8	(1,392.8)	(1,315.7)	(1,362.6)
Lease liabilities	8	(456.6)	(464.5)	(473.7)
Provisions	12	(26.4)	(29.8)	(25.4)
Trade and other payables		(0.4)	(0.5)	(1.9)
Deferred tax liabilities		-	(31.5)	(14.7)
		(2,272.4)	**(2,207.0)**	**(2,272.1)**
Net assets		**1,646.5**	**1,568.6**	**1,934.3**
Equity				
Share capital		16.5	15.0	16.5
Share premium		1,940.6	1,373.8	1,939.3
Treasury shares reserve		(112.9)	(113.0)	(112.9)

Other reserves	134.2	118.3	164.0
Retained earnings	(385.2)	51.9	(169.0)
Equity attributable to owners of Ocado Group plc	1,593.2	1,446.0	1,837.9
Non-controlling interests	53.3	122.6	96.4
Total equity	**1,646.5**	**1,568.6**	**1,934.3**

Condensed Consolidated Statement of Changes in Equity

for the 26 weeks ended 28 May 2023

	Attributable to owners of Ocado Group plc							
	Share capital	Share premium	Treasury shares reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 27 November 2022 (audited)	**16.5**	**1,939.3**	**(112.9)**	**164.0**	**(169.0)**	**1,837.9**	**96.4**	**1,934.3**
Loss for the period	-	-	-	-	(233.7)	**(233.7)**	(41.7)	**(275.4)**
Other comprehensive expense	-	-	-	(29.8)	-	**(29.8)**	-	**(29.8)**
Total comprehensive expense for the period ended 28 May 2023 (unaudited)	**-**	**-**	**-**	**(29.8)**	**(233.7)**	**(263.5)**	**(41.7)**	**(305.2)**
Transactions with owners:								
- Issue of ordinary shares	-	1.1	-	-	-	**1.1**	-	**1.1**
- Allotted in respect of share option schemes	-	0.2	-	-	-	**0.2**	-	**0.2**
- Share-based payments charge (net of tax)	-	-	-	-	16.1	**16.1**	-	**16.1**
- Additional investment in Jones Food Company Limited[1]	-	-	-	-	1.4	**1.4**	(1.4)	-
Total transactions with owners	**-**	**1.3**	**-**	**-**	**17.5**	**18.8**	**(1.4)**	**17.4**
Balance at 29 May 2023 (unaudited)	**16.5**	**1,940.6**	**(112.9)**	**134.2**	**(385.2)**	**1,593.2**	**53.3**	**1,646.5**

	Attributable to owners of Ocado Group plc							
	Share capital	Share premium	Treasury shares reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 28 November 2021 (audited)	**15.0**	**1,372.0**	**(113.0)**	**69.9**	**244.3**	**1,588.2**	**121.2**	**1,709.4**
(Loss)/profit for the period	-	-	-	-	(212.5)	**(212.5)**	0.4	**(212.1)**
Other comprehensive income	-	-	-	48.4	-	**48.4**	-	**48.4**
Total comprehensive income/ (expense) for the period ended 29 May 2022 (unaudited)	**-**	**-**	**-**	**48.4**	**(212.5)**	**(164.1)**	**0.4**	**(163.7)**
Transactions with owners:								
- Issue of ordinary shares	-	1.2	-	-	-	**1.2**	-	**1.2**
- Allotted in respect of share option schemes	-	0.6	-	-	-	**0.6**	-	**0.6**

- Share-based payments charge (net of tax)	-	-	-	-	21.1	**21.1**	-	**21.1**
- Reduction in investment in Jones Food Company Limited[2]	-	-	-	-	(1.0)	**(1.0)**	1.0	-
Total transactions with owners	**-**	**1.8**	**-**	**-**	**20.1**	**21.9**	**1.0**	**22.9**
Balance at 29 May 2022 (unaudited)	**15.0**	**1,373.8**	**(113.0)**	**118.3**	**51.9**	**1,446.0**	**122.6**	**1,568.6**

1. In April 2023, the Group exercised warrants in Jones Food Company Limited ("Jones Food Company") to acquire 2.3 million shares for £3.7m and therefore, the Group's shareholdings in Jones Food Company is 54.6%. The Group retains control of Jones Food Company.

2. In January 2022, Jones Food Company issued new shares to three individuals, which resulted in the Group's shareholdings in Jones Food Company decreasing to 48.1%. The Group retained control of Jones Food Company following this transaction.

Condensed Consolidated Statement of Cash Flows

for the 26 weeks ended 28 May 2023

	Note	**26 weeks ended 28 May 2023 £m (unaudited)**	26 weeks ended 29 May 2022 £m (unaudited)
Cash generated from operations	13	**10.3**	**23.5**
Corporation tax refund/(paid)		1.4	(0.5)
Interest paid		(28.1)	(27.3)
Insurance proceeds relating to destroyed inventory and business interruption		-	10.0
Net cash flows (used in)/from operating activities		**(16.4)**	**5.7**
Cash flows from/(used in) investing activities			
Insurance proceeds relating to rebuilding Andover Customer Fulfilment Centre ("CFC")		-	5.0
Purchase of property, plant and equipment		(194.8)	(305.8)
Purchase of intangible assets		(94.0)	(82.0)
Purchase of unlisted equity investment at FVTOCI		(10.0)	-
Proceeds from disposal of asset held for sale		9.4	-
Interest received		18.2	0.7
Net cash flows used in investing activities		**(271.2)**	**(382.1)**
Cash flows from/(used in) financing activities			
Proceeds from issue of ordinary share capital		1.1	0.6
Proceeds from allotment of share options		0.2	1.2
Proceeds from interest-bearing loans and borrowings		14.3	-
Repayment of borrowings		(10.0)	-
Repayment of lease liabilities		(32.1)	(23.1)
Cash received in respect of contingent consideration receivable		0.9	-
Net cash flows used in financing activities		**(25.6)**	**(21.3)**
Net decrease in cash and cash equivalents		(313.2)	(397.7)
Cash and cash equivalents at the beginning of the period		1,328.0	1,468.6
Effects of changes in foreign exchange rates		(6.3)	11.8
Cash and cash equivalents at the end of the period		**1,008.5**	**1,082.7**

Notes to the condensed consolidated interim financial information

1. General information

Ocado Group plc (hereafter the "Company") is incorporated in the United Kingdom under the Companies Act 2006 (company number: 07098618). The address of its registered office is Buildings One & Two Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9UL, United Kingdom. The condensed consolidated interim financial information (hereafter "Financial Information") comprises the results of the Company and its subsidiaries (hereafter the "Group").

The financial period represents the 26 weeks ended 28 May 2023. The prior financial periods represent the 26 weeks ended 29 May 2022 and the 52 weeks ended 27 November 2022.

2. Basis of preparation

This condensed consolidated interim financial report for the half-year reporting period ended 28 May 2023 has been prepared in accordance with the UK-adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the UK's Financial Conduct Authority.

The Financial Information does not amount to full statutory accounts within the meaning of Section 434 of the Companies Act 2006 and does not include all of the information and disclosures required for full annual financial statements. It should be read in conjunction with the Annual Report and Accounts of Ocado Group plc for the 52 weeks ended 27 November 2022 which was prepared in accordance with the Listing Rules and the Disclosure Guidance and Transparency Rules of the United Kingdom Financial Conduct Authority (where applicable), International Accounting Standards in conformity with the requirements of the Companies Act 2006 and UK-adopted International Financial Reporting Standards ('IFRS'), including the interpretations issued by IFRS Interpretation Committee ('IFRIC'). This report is available either on request from the Company's registered office or at www.ocadogroup.com. The Independent Auditor's Report on these accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006.

The Financial Information is presented in pounds sterling, rounded to the nearest hundred thousand unless otherwise stated. It 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.

Going concern
The Directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the condensed consolidated financial statements.

In assessing going concern, the Directors take into account the Group's cash flows, solvency and liquidity positions and borrowing facilities. At the end of the period, the Group had cash and cash equivalents of £1,008.5m (27 November 2022: £1,382.0m) and net current assets of £834.7m (27 November 2022: £1,166.3m), which the Directors believe would be sufficient to maintain the Group's liquidity over the going concern period, including continued investment to meet existing financial commitments and to deliver future growth.

The Directors considered a range of scenarios as part of their assessment, each of which showed positive cash headroom throughout the 18-month period from the balance sheet date that has been considered in the assessment. In addition, the Directors considered mitigating actions available in the event of a deterioration in trading performance, notably the ability to reduce capital expenditure in the short term or to make cost efficiencies where appropriate.

Taking these factors together, the Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the condensed consolidated financial statements.

3. Significant accounting policies

Accounting policies
The accounting policies applied by the Group in these interim financial statements are consistent with those applied by the Group in its consolidated financial statements for the 52 weeks ended 27 November 2022.

Judgements and estimates
The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates. In preparing these interim financial statements, the critical accounting judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Annual Report and Accounts for the 52 weeks ended 27 November 2022.

New standards, amendments and interpretations
The following new standards, interpretations and amendments to published standards and interpretations are relevant to the Group and have been deemed to have an immaterial effect on these interim financial statements:

		Effective date
IAS 16	Property, Plant and Equipment - proceeds of intended use	1 January 2022
IAS 37	Onerous Contracts - costs of fulfilling a contract	1 January 2022
IFRS 3	Reference to the Conceptual Framework	1 January 2022
Annual Improvements to IFRS, 2018-2020 Cycle	Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41	1 January 2022

Change in presentation of expenses in the condensed consolidated income statement
Following the change of the Group's operating segments during the period (see Note 4 for details), the Group has also adopted a revised presentation of expenses in the Income Statement, replacing Cost of Sales, Distribution Expenses and Administrative Expenses with a single line item for Operating Costs, resulting in 1H22 previously reported amounts of £777.7m, £418.8m and £285.2m respectively aggregating to a 1H22 restated amount of £1,481.7m. The revised presentation provides an Income Statement that is more relevant for the Group, reflecting the increased impact of the Technology Solutions business where the nature of the associated costs, does not have the typical cost of sales, distribution and administrative expenses. In addition, the revised presentation also provides more reliable reporting by removing any allocations between distribution and administrative expenses.

In addition, the Group has reassessed the classification of certain items which were previously reported as Other Income and which are now being reported within operating costs. The prior period comparatives have been restated on this basis, with £48.9m now being recorded within the restated Operating expenses of £1,446.1m.

4. Segmental reporting

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 Board. The Board assesses the performance of all operating segments on the basis of EBITDA*.

To better reflect the structure of the Group's businesses, commencing FY23, the Group changed the reporting structure of its operating segments to align with the three underlying business models: Retail, Logistics and Technology Solutions:

- The Retail segment provides online grocery and general merchandise offerings to customers within the United Kingdom and relates entirely to the Ocado Retail joint venture.
- The Logistics segment provides the CFCs and logistics services for customers in the United Kingdom (Wm Morrison Supermarkets Limited and Ocado Retail Limited).
- The Technology Solutions segment provides end-to-end online retail and automated storage and retrieval solutions for general merchandise to corporate customers both in and outside of the United Kingdom.

The 2023 segmental disclosures have been prepared to reflect the above structure, with the prior period comparatives restated on this basis.

Inter-segment eliminations relate to revenues and costs arising from inter-segment transactions and are required to reconcile segmental results to the consolidated Group results.

Any transactions between the segments are subject to normal commercial terms and market conditions. Segmental results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The Group is not currently reliant on any major customer for 10% or more of its revenue.

Segmental revenue and EBITDA*	Retail £m	Logistics £m	Technology Solutions £m	Inter-segment eliminations £m	**Total** **£m**
26 weeks ended 28 May 2023 (unaudited)					
Segmental revenue*	1,178.5	335.2	198.2	(341.2)	**1,370.7**
Segmental EBITDA*	(2.5)	14.6	5.9	(1.4)	**16.6**
26 weeks ended 29 May 2022 (unaudited) - restated					
Segmental revenue*	1,122.2	329.7	124.7	(314.2)	**1,262.4**
Segmental EBITDA*	31.3	14.5	(58.8)	(0.6)	**(13.6)**
52 weeks ended 27 November 2022 (audited) - restated					
Segmental revenue*	2,203.0	659.9	291.4	(640.5)	**2,513.8**
Segmental EBITDA*	(4.0)	33.6	(101.5)	(2.2)	**(74.1)**

* See Alternative performance measures in Note 16 for further information.

No measure of total assets and total liabilities is reported to each reportable segment, as such amounts are not provided to the CODM.

5. Exceptional items*

Exceptional items*, as disclosed on the face of the Consolidated Income Statement, are items that are considered to be significant due to their size and/or nature, not in the normal course of business or are consistent with items that were treated as exceptional in prior periods or that may span multiple financial periods. They have been classified separately in order to draw them to the attention of the readers of the financial statements and facilitate comparison with prior periods to assess trends in financial performance more readily. The Group applies judgement in identifying the items of income and expense that are recognised as exceptional.

	Ref.	**26 weeks ended 28 May 2023 £m (unaudited)**	26 weeks ended 29 May 2022 £m (unaudited)
Andover CFC			
- Other exceptional costs		-	(0.1)
Erith CFC			
- Insurance reimbursement		-	6.3
Ocado Group Finance transformation	A	(3.5)	(4.0)
Litigation costs	B	(9.1)	(11.1)
Ocado Retail IT systems transformation	C	(0.7)	(3.2)
Change in fair value of contingent consideration	D	(17.4)	5.1
Organisational restructure	E	(7.8)	-
UK network capacity review	F	(38.7)	-
Net exceptional costs		**(77.2)**	**(7.0)**

* Exceptional items are alternative performance measures. See Note 16 for further information.

A. Ocado Group Finance transformation
Subsequent to the Group's implementation of various Software as a Service ("SaaS") solutions in 2H21, the Group has undertaken a multi-year programme which focuses on optimising and enhancing the existing SaaS solutions and related finance processes to improve efficiency across the business. This programme is expected to complete in 1H24. The cumulative finance transformation costs expensed to date amount to £10.5m and include £3.5m in 1H23 which largely relate to spend on external consultants and contractors. These amounts have been disclosed as exceptional items because the total costs associated with this programme are significant and arise from a strategic project that is not considered by the Group to be part of the normal operating costs of the business.

B. Litigation costs
Litigation costs are costs incurred on patent infringement litigation between the Group and AutoStore Technology AS ("AutoStore"). The net cumulative costs to date amount to £66.7m and include £9.1m in 1H23.

C. Ocado Retail IT systems transformation
In FY21, Ocado Retail initiated its IT Roadmap programme which focuses on delivering IT systems and services that will enable ORL to meet its obligation to transition away from Ocado Group IT services, tools and support. The IT Roadmap programme which is expected to conclude in FY23 includes the development of both on-premises and SaaS solutions. IT Roadmap programme costs that meet assets recognition criteria will be recognised as intangible assets, and implementation costs that do not meet assets recognition will be expensed. The cumulative costs expensed to date amount to £9.3m. These costs have been classified as exceptional because they are expected to be significant and result from a transformational activity which is considered only incremental to the core activities of the Group.

D. Change in fair value of contingent consideration
In 2019, the Group sold Marie Claire Beauty Limited ("Fabled") to Next plc and 50% of ORL to Marks and Spencer Group plc ("M&S"). Part of the consideration for these transactions was contingent on future events. The Group holds contingent consideration at fair value through profit or loss, and revalues it at each reporting date. As at 28 May 2023, the value of the contingent consideration was £80.1m (FY22: £98.3m). A loss on revaluation of £17.4m (1H22: £5.1m gain) is reported through exceptional items, primarily driven by the reduction in the contingent consideration receivable from M&S. Refer to Note 9 for details.

E. Organisational restructure

During the period, the Group undertook a partial reorganisation of its head office and support functions resulting in redundancy and related costs of £7.8m. This followed an initial reorganisation in 2H22 which incurred costs of £3.0m, with net cumulative costs to date of £10.8m. These costs have been classified as exceptional on the basis that the aggregate costs are considered to be significant and resulted from a strategic restructuring which is only incremental to the normal operating activities of the Group.

F. UK network capacity review
On 25 April 2023, the Group announced the plan to cease operations at its Customer Fulfilment Centre ("CFC") in Hatfield as part of a wider review of UK network capacity.

As a result, the Group has recorded provisions for restructuring costs of £11.0m, onerous contracts of £4.1m and other costs of £3.2m, as well as an impairment charge of £20.4m (RoU assets £13.3m; PP&E £7.1m).

These costs have been classified as exceptional on the basis that they are expected to be material and relate primarily to a site where no ongoing trading activities will take place.

Tax impact on exceptional items
The change in fair value of contingent consideration receivable is not subject to tax. The remaining exceptional items are taxable or tax deductible and give rise to a tax credit of £13.8m of which £nil (1H22: £0.6m) has been recognised. The tax credit has not been recognised as it relates to tax losses which are not recognised for deferred tax purposes.

6. Loss per share

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares held pursuant to the Group's Joint Share Ownership Scheme ("JSOS"), and linked jointly-owned equity ("JOE") awards under the Ocado Group Value Creation Plan ("Group VCP"), which are accounted for as treasury shares.

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

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.

The basic and diluted loss per share has been calculated as follows:

	26 weeks ended 28 May 2023 (unaudited) Million	26 weeks ended 29 May 2022 (unaudited) Million
Weighted average number of shares at the end of the period	**815.8**	741.1

	£m	£m
Loss for the period attributable to the owners of Ocado Group plc	**(233.7)**	(212.5)

	Pence	Pence
Basic and diluted loss per share	**(28.65)**	(28.67)

7. Finance income and costs

	26 weeks ended 28 May 2023 £m (unaudited)	26 weeks ended 29 May 2022 £m (unaudited)
Interest income on cash balances	19.1	0.7
Interest income on loans receivable	0.5	0.4
Gain on revaluation of financial assets designated at FVTPL	-	0.8
Foreign exchange gain	-	8.2
Finance income	**19.6**	**10.1**
Borrowing costs:		
- Interest on lease liabilities	(13.1)	(13.5)
- Interest and other charges on borrowings	(33.3)	(29.5)
Loss on revaluation of financial assets designated at FVTPL	(4.0)	-
Foreign exchange loss	(5.0)	-
Unwinding of discounting of provisions	(0.6)	(0.5)
Finance costs	**(56.0)**	**(43.5)**
Net finance cost	**(36.4)**	**(33.4)**

8. Movements in net debt*

Net debt* is calculated as cash and cash equivalents less total debt (borrowings and lease liabilities).

			Non-cash movements			
	27 November 2022 £m	**Cash flows £m**	**Net new lease liabilities £m**	**Foreign exchange £m**	**Unwinding of interest £m**	**28 May 2023 £m**
Cash and cash equivalents	1,328.0	(313.2)	-	(6.3)	-	**1,008.5**
Liabilities from financing activities:						
Borrowings	(1,372.8)	(4.3)	-	-	(16.1)	**(1,393.2)**
Lease liabilities	(532.3)	32.1	(15.7)	(0.1)	-	**(516.0)**
Gross debt*	**(1,905.1)**	**27.8**	**(15.7)**	**(0.1)**	**(16.1)**	**(1,909.2)**
Net debt*	**(577.1)**	**(285.4)**	**(15.7)**	**(6.4)**	**(16.1)**	**(900.7)**

			Non-cash movements			
	28 November 2021 £m	Cash flows £m	Net new lease liabilities £m	Foreign exchange £m	Unwinding of interest £m	29 May 2022 £m
Cash and cash equivalents	1,468.6	(397.7)	-	11.8	-	1,082.7
Liabilities from financing activities:						
Borrowings	(1,300.0)	-	-	-	(15.7)	(1,315.7)
Lease liabilities	(528.4)	23.1	(20.5)	-	-	(525.8)

Gross debt*	(1,828.4)	23.1	(20.5)	-	(15.7)	(1,841.5)
Net debt*	(359.8)	(374.6)	(20.5)	11.8	(15.7)	(758.8)

* Gross debt and net debt are alternative performance measures. See Note 16 for further information.

9. Other financial assets

Other financial assets comprise contingent consideration receivable, unlisted equity investments, loans receivable and contributions towards dilapidations costs receivable.

	28 May 2023 £m (unaudited)	29 May 2022 £m (unaudited)	27 November 2022 £m (audited)
Non-current assets			
Contingent consideration receivable	78.6	161.1	96.3
Unlisted equity investments held at FVTOCI	99.2	39.5	69.8
Unlisted equity investments held at FVTPL	-	0.9	-
Loans receivable held at FVTPL	0.5	1.9	0.6
Loans receivable held at amortised cost	14.3	13.2	14.2
Contribution towards dilapidation costs receivable	0.7	0.7	0.7
	193.3	**217.3**	**181.6**
Current assets			
Contingent consideration receivable	1.5	0.7	2.0
Loans receivable held at FVTPL	-	0.2	1.8
	1.5	**0.9**	**3.8**

Contingent consideration receivable
Total contingent consideration receivable at the balance sheet date is £80.1m (FY22: £98.3m; 1H22: £161.8m), and comprises two amounts: £78.0m (FY22: £95.0m; 1H22: £158.9m) due from Marks and Spencer Holdings Limited ("M&S") relating to the part-disposal of Ocado Retail Limited ("Ocado Retail") in August 2019; and £2.1m (FY22: £3.3m; 1H22 £2.9m) due from Next Holdings Limited ("Next") relating to the disposal of Marie Claire Beauty Limited ("Fabled") in July 2019.

Contingent consideration due from M&S
Under the contractual terms of the part-disposal of Ocado Retail during 2019, there is a contingent consideration due from M&S to Ocado Group of £190.7m (£156.3m plus interest of £34.4m) that is payable in cash by no later than August 2024.

This payment is dependent on certain contractually defined Ocado Retail performance measures ("the Target") being achieved during the 2023 financial year. The outcome is a binary one, meaning should the Target be achieved, this will trigger the payment in full of £190.7m. Conversely, should the Target not be achieved, no consideration would be payable by M&S.

The contractual arrangement with M&S expressly provides for the Target performance measures to be adjusted for actions taken by management since the date of the part-disposal that were not included in the business case which underpinned the sale transaction.

Whilst the contractual outcome is binary, i.e the payment is either made in full or is a zero payment, under the terms of IFRS9 (Financial Instruments) and IFRS13 (Fair Value Measurement) the Group is required to determine the fair value of the contingent consideration receivable from M&S at each reporting date.

This fair value exercise has been carried out as at the period end and determined a fair value of £78.0m, a decrease of £17.0m from the fair value of £95.0m recorded at the end of the prior period.

The fair value of £78.0m has been estimated using the expected present value technique and is based on a number of probability-weighted scenarios and applying an appropriate discount rate to reflect the timing of the possible payment. In arriving at this valuation, a range of scenarios were considered, taking into account Ocado Retail's current and forecast trading performance. The valuation also considered current market conditions and the impact of adjustments to the Target as permitted under the terms of the part-disposal agreement.

There remains significant uncertainty in this estimate of fair value. Given the binary nature of the contractual agreement, it is reasonably possible that the actual amount received at the point of settlement will be materially different to the fair value currently recorded. Given the uncertainty in the determination of the post-adjustment Target performance measures, there is also a possibility that the contingent consideration may be agreed through a negotiated settlement between the two shareholders.

Unlisted equity investments held at FVTOCI
The Group holds a number of long-term, strategic investments that are accounted for as fair value through other comprehensive income ("FVTOCI").

In December 2022, Oxa Autonomy Ltd ("Oxa Autonomy"), previously Oxbotica Limited, successfully completed its Series C Fundraising, which resulted in the Group's warrants being exercised to acquire 21,934 B shares for £10.0m. Following the exercise of the warrants and the Series C fundraising, the Group now holds a 12.2% interest in Oxa Autonomy. At 1H23, the unlisted equity investment in Oxa Autonomy totals £66.2m (FY22: £36.8m; 1H22: £10.3m). The fair value of the warrants prior to the transaction was £19.4m, which together with the exercise cost of £10.0m comprises the £29.4m increase in the Group's equity investment in Oxa Autonomy.

Refer to Note 10 for further details on the valuation techniques and key inputs utilised in the fair value measurement of the financial instruments.

10. Financial instruments

Financial assets and liabilities at fair value
Financial instruments carried at fair value on the Condensed Consolidated Balance Sheet comprise contingent consideration, unlisted equity investments and the derivative assets and liabilities. The Group uses the following hierarchy for determining and disclosing the fair value of these financial instruments:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly (level 2); and
- inputs for the assets or liabilities that are not based on observable market data (level 3).

The Group's derivative financial assets and liabilities are classified as level 2. The contingent consideration and unlisted equity investments are classified as level 3.

Set out below is an analysis of all financial instruments at fair value:

		28 May 2023	29 May 2022	27 November 2022
		£m	£m	£m
		(unaudited)	(unaudited)	(audited)
Financial assets held at fair value				
- Contingent consideration receivable	Level 3	80.1	161.8	98.3

- Unlisted equity instruments	Level 3	99.2	40.4	69.8
- Loans receivable held at FVTPL	Level 3	0.5	2.1	2.4
- Derivative assets: warrants	Level 3	5.8	10.4	27.4
- Derivative assets: commodity swaps	Level 2	-	4.9	0.8
Total financial assets held at fair value		**185.6**	**219.8**	**198.7**
Financial liabilities held at fair value				
Derivative financial liabilities	Level 2	(1.8)	-	(1.6)
Total financial liabilities held at fair value		**(1.8)**	-	**(1.6)**

There were no transfers between the levels of the fair value hierarchy during the period. There were also no changes made to any of the valuation techniques during the period.

The following table provides information about how the fair values of financial instruments classified as level 3 are determined:

Description	Valuation techniques and key inputs	Significant unobservable inputs
Contingent consideration receivable	● Discounted cash flows. ● Expected cash inflows are estimated based on the terms of the share purchase agreements and the probability weighting of possible scenarios of meeting financial and operational targets.	Discount rate of 10.0%. Expected cash inflows of £193.0m. Adjustments to the Target performance measures available to the shareholder for actions taken by management that were not included in the original business case.
Unlisted equity investments and derivative assets	● Probability weighted expected return method ("PWERM"). ● Forecasted revenue, revenue multiples, exit date, discount rate and probabilities. ● Option pricing model ● Market approach along with a capitalisation of earnings approach. ● Forecasted EBITDA, EBITDA multiples and discount rates. ● Undiscounted, estimate-based valuation.	Probabilities of expected revenue in a number of different scenarios. Probabilities of various future valuations.

11. Capital expenditure and commitments

During the period, the Group acquired property, plant and equipment of £171.3m (1H22: £264.7m, FY22: £588.5m) and intangible assets of £15.3m (1H22: £20.2m, FY22: £27.4m). Internal development costs of £97.0m (1H22: £87.1m, FY22: £181.4m) were capitalised. Capital expenditure relates to CFCs in the UK, investment in international CFCs and technology expenditure.

At 28 May 2023 capital commitments contracted, but not provided for by the Group, amounted to £187.4m (1H22: £387.2m, FY22: £275.5m).

12. Provisions

During the period, the Group recorded a net increase of provisions of £20.0m (1H22: net release of provision of £19.4m), the majority of which relates to the provision of costs related to the closure of the Hatfield CFC as a result of the UK network capacity review (refer to Note 5).

13. Analysis of cash flows given in the cash flow statement - cash generated from operations

	Note	**26 weeks ended 28 May 2023 £m (unaudited)**	26 weeks ended 29 May 2022 £m (unaudited)
Loss before tax		(289.5)	(211.3)
Adjustments for:			
- Depreciation, amortisation and impairment losses[1]		213.0	157.3
- Property, plant and equipment write off		0.4	-
- Gain on disposal of asset held for sale		(5.0)	-
- Movement in provisions		19.5	(19.6)
- Share of results from joint ventures and associate		0.9	0.5
- Revenue from long-term contracts		(13.1)	(12.7)
- Other income from insurance proceeds		-	(6.3)
- Share-based payments charge		16.1	21.1
- Net finance cost	7	36.4	33.4
- Other non-cash exceptional items		17.4	(5.1)
Changes in working capital:			
- Movement in inventories		16.0	12.0
- Movement in trade and other receivables		10.9	(22.4)
- Movement in trade and other payables		(36.4)	33.3
- Cash received from contract liabilities (upfront fees)		23.7	43.1
- Movement in contract assets		-	0.2
Cash generated from operations		**10.3**	**23.5**

[1] Included within depreciation, amortisation and impairment losses is an exceptional impairment charge of £20.4m relating to the UK network capacity review. Refer to Note 5 for further details.

14. Related party transactions

Key management personnel
Only members of the Board (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.

With the exception of remuneration, there were no related party transactions with key management personnel (1H22: none). At the end of the period, there was £nil (1H22: £nil) owed by key management personnel to the Group.

Joint venture
The following transactions were carried out with MHE JVCo Limited ("MHE JVCo"), a company incorporated in the United Kingdom in which the Group holds a 50% interest:

	26 weeks ended 28 May 2023 £m (unaudited)	26 weeks ended 29 May 2022 £m (unaudited)	52 weeks ended 27 November 2022 £m (audited)
Dividend received from MHE JVCo	-	-	8.0
Reimbursement of supplier invoices paid on behalf of MHE JVCo	0.8	-	1.1
Capital element of lease liability instalments accrued or paid to MHE JVCo	8.6	9.5	16.5

Interest element of lease liability instalments accrued or paid to MHE JVCo	0.3	0.9	1.3

Included within trade and other receivables is a balance of £1.9m (1H22: £0.5m; FY22: £2.3m) owed by MHE JVCo. Included within trade and other payables is a balance of £12.5m (1H22: £12.0m; FY22: £1.8m) owed to MHE JVCo. Included within lease liabilities is a balance of £9.0m (1H22: £25.9m; FY22: £17.5m) owed to MHE JVCo.

Associate
During a prior period, the Group loaned £1.7m to Karakuri Limited ("Karakuri"), a company in which the Group holds a 26.3% interest. The loan is held at fair value through profit or loss within other financial assets, however following Karakuri entering into administration in 1H23, a write-down of £1.9m was recognised and hence its carrying amount at 28 May 2023 is £nil (1H22: £1.9m, FY22: £1.8m). During the period, £0.1m (1H22: £0.1m) of interest income was recognised within finance income.

No other transactions that require disclosure under IAS 24 "Related Party Disclosures" have occurred during the current financial period. There are no changes in the related party transactions described in the last annual report that could have a material effect on the financial position or performance of the group in the first six months of the current financial year.

15. Post-Balance Sheet events

Acquisition of 6 River Systems
On 4 May 2023, the Group announced that it has reached an agreement with Shopify Inc. to acquire 6 River Systems LLC, a collaborative autonomous mobile robot ("AMR") fulfilment solutions provider to the logistics and non-grocery retail sectors, based in the United States of America. The acquisition was completed on 30 June 2023 for an initial cash consideration of US$12.7m (£10.0m).

Autostore litigation cost recovery
On 29 June 2023, the UK High Court issued a formal order following Ocado's victory in the UK part of the litigation in March 2023. The order states that none of the Autostore patents are infringed by Ocado, and that the Autostore bot patents are invalid and revoked. The UK High Court also ordered that Autostore pay Ocado £6.7m in costs in relation to the UK High Court trial. As usual in patent cases, Autostore has been given the option to appeal.

16. Alternative performance measures

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

- EBITDA;
- Exceptional items;
- Gross debt and external gross debt
- Net debt
- Technology Solutions fees invoiced; and
- Underlying cash outflow

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

EBITDA

In addition to measuring its financial performance based on operating profit, the Group measures performance based on EBITDA. EBITDA is defined as the Group's earnings before depreciation, amortisation, impairment, net finance cost, taxation and exceptional items. EBITDA is a common measure used by investors and analysts to evaluate the operating financial performance of companies. A reconciliation of operating profit to EBITDA can be found on the face of the Condensed Consolidated Income Statement.

The Group considers EBITDA to be a useful measure of its operating performance because it approximates the underlying operating cash flows by eliminating depreciation and amortisation. EBITDA is not a direct measure of liquidity, which is shown by the Condensed Consolidated Statement of Cash Flows, and needs to be considered in the context of the Group's financial commitments.

The financial performance of the Group's segments is measured based on EBITDA, as reported internally. A reconciliation of the EBITDA of the Group with the EBITDA for the segments is disclosed in Note 4.

Exceptional items

The Group's Condensed Consolidated Income Statement identifies separately trading results before exceptional items. The Directors believe that presentation of the Group's results in this way is relevant to an understanding of the Group's financial performance. This presentation is consistent with the way that financial performance is measured by management and reported to the Board and assists in providing a meaningful analysis of the trading results of the Group. This also facilitates comparison with prior periods to assess trends in financial performance more readily. Exceptional items are disclosed in Note 5.

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

Examples of items that the Group considers exceptional include, but are not limited to corporate reorganisations, material litigation, multi-year transformation programmes and any material costs outside of the normal course of business as determined by management.

Gross debt and external gross debt

Gross debt is calculated as borrowings and lease liabilities as disclosed in Note 8. External gross debt is calculated as gross debt less lease liabilities payable to joint ventures of the Group. External gross debt is a measure of the Group's indebtedness to third parties which are not considered related parties of the Group. A reconciliation of gross debt with external gross debt is set out below:

	Note	**26 weeks ended 28 May 2023 £m (unaudited)**	26 weeks ended 29 May 2022 £m (unaudited)	52 weeks ended 27 November 2022 £m (audited)
Gross debt	8	1,909.2	1,841.5	1,905.1
Lease liabilities payable to joint ventures		(9.0)	(25.9)	(17.5)
External gross debt		**1,900.2**	**1,815.6**	**1,887.6**

Net debt

Net debt is calculated as cash and cash equivalents less gross debt. Total debt is measured as the net proceeds raised, adjusted to amortise any discount over the term of the debt.

Net debt is a measure of the Group's net indebtedness, and provides an indicator of the overall strength of the Condensed Consolidated Balance Sheet. It is also a single measure that can be used to assess the combined effect of the Group's cash position and its indebtedness. The use of the term "net cash" does not necessarily mean that the cash included in the net cash calculation is available to settle the liabilities included in this measure.

Net debt is considered to be an alternative performance measure as it is not defined in IFRS. The most directly comparable IFRS measure is the aggregate of borrowings and lease liabilities and cash and cash equivalents. A reconciliation of these measures with net debt is disclosed in Note 8.

Technology Solutions fees invoiced
Technology Solutions fees invoiced is used as a key measure of performance of the Technology Solutions business as an alternative to revenue and represent design and capacity fees invoiced during the period for existing and future CFC and in-store fulfilment commitments.

Underlying cash flow
Underlying cash flow is the movement in cash and cash equivalents excluding the impact of exceptional items, costs of financing, purchase of unlisted equity investments and foreign exchange movements. A reconciliation of the movement in cash and cash equivalents to underlying cash outflow is detailed within the Financial Review: 1H23.

Principal risks and uncertainties

The Group faces a number of risks and uncertainties that may have an adverse impact on the Group's operation, performance or future prospects.

The Board regularly assesses and monitors the principal risks of the business. Set out in the Group's Annual Report and Accounts for the 52 weeks ended 27 November 2022 were details of the principal risks and uncertainties for the Group and the key mitigating activities used to address them, applicable at that time.

Since year-end, the impact on the Ocado business of certain geopolitical and economic risks has remained significant and although our principal risks remain unchanged in substance, inflationary pressures, interest rate rises and the general economic backdrop mean that many of our principal risks remain elevated. The Group continues to take cost mitigation measures to protect liquidity in FY23, but it has limited mitigations for some costs including the increasing commodity, freight and utility costs (aside from some diesel, electricity and FX hedging). The Group continues to carefully monitor its cash flows and financing requirements and the changing external environment for financing.

As part of the ongoing risk management process, emerging risks are identified and assessed. These risks are deemed to be significant but are not listed as one of the Group's principal risks. The business will bring additional focus to these emerging risks and look at actions for addressing them. The Group's Annual Report and Accounts for the 52 weeks ended 27 November 2022 contains a description of the emerging risks for the Group.

The Board considers that the principal risks and uncertainties have not changed, and remain relevant for the remaining six months of the 2023 financial year.

- Talent & Capability - Difficulty in filling key positions, a loss of top performers and an inability to embed diversity could undermine business operations and growth plans.
- Cyber Security - Disruption or loss of critical assets and sensitive information as a result of a cyber attack, insider threat or a data breach within our Group network or our supply chain, could result in business disruption, reputational damage and regulatory impacts, for us and our clients.
- Fire & Safety - Fire, or harm to a worker or customer, caused by product design or operating failures could result in business disruption, loss of assets and reputational loss.

- Regulatory & Compliance - Failure to comply with local and international regulations could lead to loss of trust, penalties, and undermine our ability to operate.
- Geopolitical & Economic Uncertainty - Global economic and political crises may undermine customer demand, our access to skills and our supply chain. This could impair operations and delivery of new capacity.
- Product Commercial Proposition - Our OSP offer, pricing and contractual terms may not provide adequate and sustainable returns for us and our shareholders and an attractive commercial proposition for our clients.
- Product Performance - Failure to provide clients with timely, consistently reliable performance at a level of quality to meet the needs of their end customers. Partners may not have the necessary knowledge, guidance, or capabilities to operate OSP efficiently and cost-effectively. These issues could lead to increased costs, reduced revenue or penalties for Ocado and its clients.
- Product Innovation - Failure to respond to emerging technology or disruptive business models could undermine our ability to attract and retain clients.
- Intellectual Property - Third party IP infringement or failure to protect our own IP could result in loss of use of the Group's assets, financial damages or harm to the Company's reputation or relationships.
- Supply Chain - Disruption in our extended and complex supply chain may adversely affect product availability and responsible sourcing. This could result in increased costs and fines, delays to contractual commitments and loss of revenue.
- Climate - Extreme weather events and climate-related regulation could disrupt our supply chain, operations and demand for our product.

Principal risks and uncertainties (continued)

This principal risks section should be read in conjunction with the rest of this statement as the impact of the current market conditions and trading patterns on the business are explained there and help provide an understanding of the risks and opportunities facing Ocado.

More information on these principal risks and uncertainties together with an explanation of the Group's approach to risk management is set out in Ocado Group plc's Annual Report and Accounts for the 52 weeks ended 27 November 2022, a copy of which is available on the Group's corporate website, www.ocadogroup.com.

Independent Review Report to Ocado Group plc

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 28 May 2023 which comprises the income statement, statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement, and related notes 1 to 16.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 28 May 2023 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Basis for Conclusion

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

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with United Kingdom adopted international accounting standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with United Kingdom adopted International Accounting Standard 34, "Interim Financial Reporting".

Conclusion Relating to Going Concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for Conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed.

This Conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410; however future events or conditions may cause the entity to cease to continue as a going concern.

Responsibilities of the directors

The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

In preparing the half-yearly financial report, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the review of the financial information

In reviewing the half-yearly financial report, we are responsible for expressing to the company a conclusion on the condensed set of financial statements in the half-yearly financial report. Our Conclusion, including our Conclusion Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of our report

This report is made solely to the company in accordance with ISRE (UK) 2410. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP
Statutory Auditor
London, UK

18 July 2023

Statement of Directors' Responsibilities

The Directors confirm that, to the best of their knowledge:

- the condensed set of financial statements gives a true and fair view of the assets, liabilities, financial position, and profit or loss of the issuer, or undertakings included in the consolidation, as required by DTR 4.2.4R and prepared in accordance with UK adopted IAS 34 "Interim Financial Reporting";
- the interim management report includes a fair review of the information required by DTR 4.2.7R, namely:
    - an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements; and
    - a description of the principal risks and uncertainties for the remaining six months of the financial year;
- the interim management report includes a fair review of the information required by DTR 4.2.8 R, namely:
    - material related party transactions that have taken place in the first six months of the financial year and that have materially affected the financial position or performance of the enterprise during that period; and
    - any material changes in the related party transactions described in the last annual report and that could have a material effect on the financial position or performance of the enterprise in the first six months of the current financial year.

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

Executive Directors
Tim Steiner, Chief Executive Officer
Luke Jensen, Chief Executive Officer, Ocado Solutions
Stephen Daintith, Chief Financial Officer
Neill Abrams, Group General Counsel and Company Secretary
Mark Richardson, Chief Operations Officer

Non-Executive Directors
Richard Haythornthwaite, Chairman
Andrew Harrison, Senior Independent Director
Jörn Rausing
Emma Lloyd
Julie Southern
John Martin
Nadia Shouraboura
Julia M. Brown

Approved by the Board and signed on its behalf by:

Stephen Daintith
Chief Financial Officer

Neill Abrams
Group General Counsel and Company Secretary

18 July 2023

Person responsible for arranging the release of this announcement:

Neill Abrams
Group General Counsel and Company Secretary
Ocado Group plc
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Hatfield, Hertfordshire AL10 9UL
Fax: +44 (0)1707 227 997
email: company.secretary@ocado.com
Ocado Group plc LEI: 213800LO8F61YB8MBC74

Glossary

Active customer (ORL) - means a customer who has shopped at Ocado.com within the previous 12 weeks.

AEON - means Aeon Co., Ltd., a company incorporated in Japan, whose registered office is at 1-5-1 Nakase, Mihama-ku, Chiba-shi, Chiba, 261-8515.

Alcampo - means Alcampo S.A., a company incorporated in Spain under registered company number C.I.F. A-28581882 whose registered office is at Madrid, c/ Santiago Compostela Sur, s/n (Edificio de Oficinas la Vaguada) CP.28029 Madrid.

ASRS - means Automated Storage Retrieval Systems.

Auchan Polska - means Auchan Polska Sp. z.o.o., a company incorporated in Poland, whose registered office is at ul. Puławska 46, 05-500 Piaseczno.

AutoStore - means AutoStore Technology AS, a company incorporated in Norway, whose registered office is at Stokkastrandvegen 85, 5578, Nedre Vats, Rogaland, Norway.

Average basket value - means the average amount spent by shoppers in one transaction, calculated as product sales divided by total orders.

Average number of modules live - means the weighted average number of modules that were fully installed and available for use by our client partners during the period.

Average orders per week (ORL) - means the average number of Orders per week processed within CFCs.

Average selling price - means product sales divided by total eaches.

Board - means the Board of Directors of the Company or its subsidiaries from time to time as the context may require.

Bon Preu - means Bon Preu SA, a company incorporated in Spain, whose registered office is at Carrer C, 17, 08040 Barcelona.

Client Partner - means a client of Ocado Group that has purchased the Ocado Smart Platform Solution or part of the OSP Solution to deliver their operations.

CMA - means the Competition and Markets Authority.

Coles - means Coles Supermarkets Australia Pty Ltd, a company incorporated in Australia, whose registered office is at 800 Toorak Road, Hawthorn East, VIC 3123.

Companies Act - means the Companies Act 2006.

Company - means Ocado Group plc, a company incorporated in England and Wales with company number 07098618, whose registered office is at Buildings One & Two Trident Place, Mosquito Way, Hatfield, Hertfordshire, United Kingdom, AL10 9UL.

Contribution - means Technology Solutions revenue less Technology Solutions direct operating costs.

Corporate website - means www.ocadogroup.com.

Customer Fulfilment Centre or CFC - means a dedicated, highly automated warehouse used for the operation of the business.

Deloitte - means Deloitte LLP, the Group's statutory auditor and advisor in respect of non-audit services.

Direct operating cost (% of CFC sales capacity) - means the direct operating costs of running the CFC estate; includes engineering support, maintenance and spares, and the costs of hosting and technology services for partners.

Directors - means the Directors of the Company, whose names and biographies are set out on pages 106 to 109 of the 2022 Annual Report, or the Directors of the Company's subsidiaries from time to time as the context may require.

Disclosure Guidance and Transparency Rules or DTR - means the disclosure guidance and transparency rules made under Part VI of the Financial Services and Markets Act 2000 (as amended).

DPV - means deliveries per van.

EBITDA - means the non-GAAP measure which Ocado has defined as earnings before net finance cost, taxation, depreciation, amortisation, impairment and exceptional items.

eNPS - means employee Net Promoter Score.

ESG - means Environmental, Social, and Corporate Governance.

Exceptional items - means items that due to their material and/or not in the normal course of business nature have been classified separately in order to draw them to the attention of the reader of the financial statements.

Fabled or Fabled.com - means the Group's premium beauty online store in collaboration with Marie Claire and Time Inc., sold to Next Holdings Limited in 2019.

FCA - means the Financial Conduct Authority.

FRC - means the Financial Reporting Council.

GAAP - means generally accepted accounting principles.

GDPR - means General Data Protection Regulation.

GMDC - means the General Merchandise Distribution Centres in Welwyn Garden City and Erith, dedicated, highly-automated warehouses used for the operation of the business.

Group - means Ocado Group plc, its subsidiaries, significant undertakings and affiliated companies under its control or common control.

Groupe Casino or Casino - means Casino Guichard Perrachon SA, a company incorporated in France, whose registered office is at 24 Rue de la Montat, Saint-Etienne.

GSCOP - means Groceries Supply Code of Practice.

Haddington Dynamics - means Haddington Dynamics Inc., a company incorporated in Nevada, United States of America, acquired by the Group on 21 December 2020.

IAS - means International Accounting Standards.

ICA - means ICA Gruppen AB, a company incorporated in Sweden, whose registered office is at Svetsarvägen 16, Solna.

IFRIC - means International Financial Reporting Standards Interpretations Committee.

IFRS - means International Financial Reporting Standards.

Infinite Acres - means Infinite Acres Holding B.V., a company incorporated in the Netherlands, whose registered office is Oude Delft 128, 2611 CG Delft, Netherlands.

Inkbit - means Inkbit Corporation, a company incorporated in Delaware, United States of America, whose business address is 200 Boston Ave #1875, Medford, MA, 02155.

IP - means Intellectual Property.

ISA (UK & Ireland) - means International Standard on Auditing in the United Kingdom and Ireland.

ISF - means in-store fulfilment.

Jones Food Company or JFC - means Jones Food Company Limited, a company incorporated in England and Wales with company number 10504047, whose registered office is at Phase 2 Celsius Parc, Cupola Way, Scunthorpe, England, DN15 9YJ.

Karakuri - means Karakuri Limited, a company incorporated in England and Wales with company number 11228129, whose registered office is at Unit 2 Hammersmith Studios, 55a Yeldham Road, London, England, W6 8JF.

Kindred Systems - means Kindred Systems Inc., a company incorporated in Delaware, United States of America, acquired by the Group on 15 December 2020.

KPI - means key performance indicator.

Kroger - means The Kroger Co., a company incorporated in the United States of America, whose registered office is at 1014 Vine Street, Cincinnati, Ohio.

LGV - means large goods vehicle.

Listing Rules - means the Listing Rules made by the UK Listing Authority under Part VI of the Financial Services and Markets Act 2000 (as amended).

Liquidity - means the sum of cash and cash equivalents and undrawn facilities available for use by the Group.

Lotte - means Lotte Shopping Co., Ltd, a company incorporated and registered in the Republic of Korea with registered number 5298500774 whose registered office is at Lotte World Tower, 26th floor, 300, Olympic Street, Songpagu, Seoul, Republic of Korea.

Marks and Spencer or M&S - means Marks and Spencer Group plc, a company incorporated in England and Wales with company number 04256886, whose registered office is at Waterside House, 35 North Wharf Road, London, W2 1NW.

Mature customer - means a customer who has shopped on Ocado.com 5 or more times

MHE - means mechanical handling equipment.

MHE JVCo - means MHE JVCo Limited, a company incorporated in England and Wales with company number 08576462, jointly owned by Ocado Holdings and Morrisons, whose registered office is at Buildings One & Two Trident Place, Mosquito Way, Hatfield, Hertfordshire, United Kingdom, AL10 9UL.

Module of capacity - is assumed as approximately 5,000 eaches picked per hour (dependent on the specific metrics of a partner) and £73m pa of sales capacity (FY22: £70m of sales capacity)

Morrisons - means Wm Morrison Supermarkets Limited, a company incorporated in England and Wales with company number 00358949, whose registered office is at Hilmore House, Gain Lane, Bradford, West Yorkshire, BD3 7DL.

Morrisons.com - means Morrisons' online retail business.

Myrmex - means Myrmex Inc., a company incorporated in Delaware, United States of America, whose business address is 2350 Mission College Boulevard, Suite 495, Santa Clara, CA, 95054.

Net finance cost - means finance costs less finance income.

NPS - means net promoter score.
Number of live modules - means modules that are fully installed and available for use by our partners.

Number of modules ordered - means the maximum module capacity of sites for which a contractual agreement has been signed with a partner and an invoice has been sent for the associated fees

Ocado.com - means the Group's online retail business operated via Ocado.com (excludes Ocado Zoom).

Ocado Holdings - means Ocado Holdings Limited.

Ocado Operating - means Ocado Operating Limited.

Ocado Re:Imagined or Re:Imagined - means a series of innovations and changes to the technology powering our Ocado Smart Platform (OSP).

Ocado Retail - means Ocado Retail Limited, a joint venture between Ocado Holdings and Marks and Spencer Holdings Limited, which is incorporated in England and Wales, and whose registered office is at Apollo Court, 2 Bishop Square, Hatfield Business Park, Hatfield, Hertfordshire, United Kingdom, AL10 9EX.

Ocado Smart Platform or OSP - means the end-to-end solution for operating online in the grocery market, which has been developed by the Group.

Technology Solutions - means the Group's Technology Solutions business.

Ocado Ventures - means the Group's Ventures business.

Ocado Zoom - means Ocado Zoom, the Group's immediacy delivery offering.

OECD - means the Organisation for Economic Co-operation and Development.

OSP Leadership Club - means the collective group of Ocado Group and its global Solutions Partners.

Operating costs - means all costs incurred in the continuing operations of the Group.

R&D - means research and development.

RCF - means revolving credit facility.

Retail VCP - means the Ocado Retail Value Creation Plan for the senior leadership team of Ocado Retail.

ROI - means return on investment.

Senior unsecured notes or notes - means the Company's offering of £500m senior unsecured notes due 2026.

Senior unsecured convertible bonds or convertible bonds - means the Company's offerings of £600m senior unsecured convertible bonds due 2025 at a coupon of 0.875% and an issue price of 100.0%, and of £350m senior unsecured convertible bonds due 2027 at a coupon of 0.750% and an issue price of 100.0%.

Shareholder - means a holder for the time being of ordinary shares of the Company.

SKU - means stock-keeping unit; that is, a line of stock.

Smart Pass (previously Saving Pass) - means the Ocado pre pay membership scheme which includes the delivery pricing scheme previously known as Delivery Pass and the discount membership scheme formerly known as Saving Pass.

Sobeys - means Sobeys Inc., a wholly-owned subsidiary of Empire Company Limited incorporated in Canada, whose registered office is at 115 King Street, Stellarton, Nova Scotia.

Spoke - means the trans-shipment sites used for the intermediate handling of customers' orders.

UPH - means average units processed per labour hour.

VCP - means the Value Creation Plan.

Webshop - means the customer-facing internet-based virtual shop accessible via the website www.ocado.com.

6 Rivers Systems - means 6 Rivers Systems LLC, a company incorporated in Massachusetts, United States of America, acquired by the Group on 30 June 2023.

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