

CHIEF EXECUTIVE OFFICER'S REVIEW

Tim Steiner
Chief Executive Officer



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Over the last 12 months we have seen continued pressure in the grocery market with supermarket store volumes declining and ongoing competitive pricing activity. At the same time, the number of customers choosing to shop for their groceries online has grown as the channel shift to online progresses. Against this backdrop, we have continued to make progress in each of our strategic objectives of driving growth, maximising our efficiency, and utilising our knowledge. In particular, we delivered sales growth ahead of the broader online grocery market, successfully launched our first platform customer, Morrisons.com, and made significant progress in our plans for the next generation CFC assets.

- Develop ever more capital and operationally efficient infrastructure solutions;
- Enhance our end-to-end technology systems; and
- Enable Morrisons' and future partners' online businesses.

CONSTANTLY IMPROVE THE PROPOSITION TO CUSTOMERS

Central to driving the growth of our retail business are our efforts to constantly improve the proposition we offer to customers – our high quality service, the broad selection of products available, and consumers' confidence in our prices. We have continued to make progress in improving each of these key aspects.

Voted the Best Online Grocer 2014 by Which? Magazine in its members' Annual Satisfaction Survey for the fifth successive year, we have continued to win awards for our service and the food that we sell. We believe this reflects our ongoing progress and the strengthening recognition of our brand.

We recognise the importance of the shopping experience, and believe that increasingly consumers will try online for their grocery shop if they consider it more attractive than current store based shopping. We have continued to focus

STRATEGIC OBJECTIVES SUPPORTED BY OUR ACTIONS

Our strategic objectives apply to both our own retail business and our current and potential platform operations. We support our objectives through a framework of actions intended to deliver long term shareholder value.

The key actions within our framework are to:

- Constantly improve our proposition to customers;
- Strengthen our consumer brands;



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on improving elements and features of the customer interface to enhance the speed, convenience and usability of our service. Features such as Import Your Favourites, shortened registration processes and the introduction of payment by PayPal are proving to be particularly useful in encouraging customers to shop for the first time and on subsequent occasions, with customer retention rates from first to fifth shop modestly improving over the period. This is important in building a base of frequent, loyal customers.

Smart Pass, our bundled customer benefit membership scheme, continued to be popular, further driving customer loyalty, shopping frequency and total spend per customer. Customers shopping using mobile devices have remained strong. For the period, over 48% of all orders delivered were checked out over a mobile device, with mobile apps accounting for over 37% of all checkouts. In January 2015 we launched our new mobile website to complement our mobile apps, which we anticipate may be particularly attractive to new customers.

A high quality and reliable delivery service is critical to our customers. We believe our customer delivery service continues to be market leading in order accuracy and on time performance. Orders delivered on time or early improved to 95.3% (2013: 95.2%) and order accuracy also improved to 99.3% (2013: 99.0%) during the period.

Our range at Ocado.com is now over 43,000 products including everyday items, our own brand, more non-food and additional specialist ranges. These include new ranges such as a Malaysian food selection and extensions to our Kosher and Halal shops.

Our non-food sales and range continued to grow during the period, with sales growing over 50% and by the end of the period more than a third of baskets contained at least one non-food item, reflecting the

increased popularity of shopping from a broader general merchandise product range while customers make their regular grocery shop.

In 2H 2014 we launched our second destination site, Sizzle. This is a specialist kitchen and dining shop and complements Fetch, our pet store. Fetch now has over 8,000 SKUs, and Sizzle over 12,000 SKUs, both complementing our Ocado.com range.

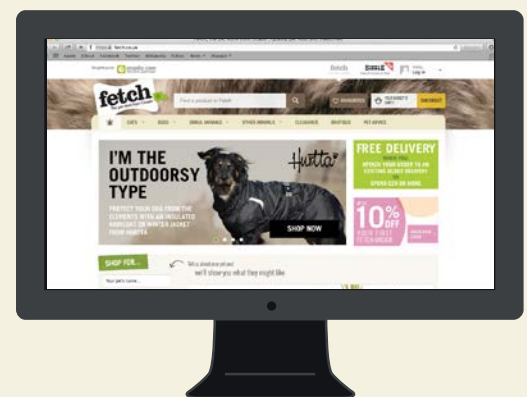
One of our subsidiary companies, Speciality Stores Ltd, has entered into an agreement with Marie Claire UK to launch a new business in the beauty and wellbeing segment. This business will be a separately incorporated company and will operate using the Marie Claire brand. It will be based in the Marie Claire office in central London and be led by Amanda Scott, currently Head of Buying for Beauty and Accessories at John Lewis. Start-up costs are estimated at between £2 – £3 million in 2015. We believe that the high quality of service delivered by our technology and logistics platform combined with the awareness and relevance of the Marie Claire brand will make this an attractive shopping destination for customers.

Amidst the current price competitive market environment, our Low Price Promise basket matching scheme continues to resonate well with our customers, reflecting the competitiveness of our prices and adding transparency to our pricing strategy. By the end of the period, when checking for LPP, over three quarters of our customers' baskets were already cheaper at Ocado. The cost of LPP in the form of vouchers used during the period was lower than the same period last year, despite the increased price reductions in the market, reflecting our competitiveness in prices and sustained promotional activity.

OCADO



FETCH



SIZZLE



CHIEF EXECUTIVE OFFICER'S REVIEW continued

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STRENGTHEN CONSUMER BRANDS

We have continued to develop the awareness and strength of Ocado's stable of brands, and reinforce their values.

We have concentrated our modest above the line marketing spend on initiatives to build broader brand awareness, focused around food, such as the sponsorship of Channel 4's Daily Brunch, supporting the launch of 'Britain's Next Top Supplier' competition, an Ocado initiative to support and nurture small British suppliers, and supplying food to the BBC Good Food Shows at Olympia and the NEC. Overall marketing costs, including voucher spend, has fallen as a percentage of sales, reflecting a fall in retention vouchering and a similar growth rate of new customer acquisitions.

The Ocado own-label reinforces brand recognition and continues to grow in popularity with sales up over 40% against the equivalent period last year, and the average basket now containing almost five Ocado own-label products.

The growth in our customer numbers reflects the strengthening position of our brand. Our active customers at the end of the period stood at 453,000 (2013: 385,000).

Our customers' average baskets stood at £112.25 (2013: £113.53) by the period end, including the impact of standalone destination site orders from Fetch and Sizzle.

Fetch has grown strongly in its first year, gaining in brand awareness despite limited marketing support during the period. Increasingly customers recognise the convenience of buying their pet requirements online and having them delivered together with their Ocado grocery shop, rather than requiring a visit to the pet shop or veterinary clinic. We anticipate customer awareness of the Sizzle brand will build as shoppers discover the benefits and range available to them in this category.

DEVELOP EVER MORE CAPITAL AND OPERATIONALLY EFFICIENT INFRASTRUCTURE SOLUTIONS

Our capabilities are being significantly enhanced and broadened with the ongoing development of our new modular, scalable physical fulfilment solution. This system has benefited from our extensive design and engineering experience which has enabled us to develop a proprietary solution with many beneficial attributes when compared to existing infrastructure assets or any commercially available alternatives. Successful development of this infrastructure solution will vertically integrate our platform of software, electronic and mechanical systems required to operate online retail operations efficiently, enabling a compelling proposition to the consumer and our partners.

Our solution combines extremely dense storage, rapid retrieval and fast picking of single items. We believe it is the most capital efficient solution available that is capable of fulfilling this purpose, and should significantly exceed the operating efficiency we have achieved in our existing CFCs.

The new product storage and retrieval system incorporates a number of technological advances including a highly sophisticated proprietary communications technology capable of interacting inside a building with thousands of devices multiple times per second, significantly in excess of any technology currently available commercially.

The constituent elements of this infrastructure solution are currently undergoing significant testing and we are confident in their key performance capabilities. We have filed for patents across our innovations, driven by the desire to protect the IP intrinsic to our infrastructure solution. As more patents are filed we are building a web of protection for our valuable IP in the future.



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Both our Hatfield Customer Fulfilment Centre ("CFC1") and our Dordon Customer Fulfilment Centre ("CFC2") continued to operate to a high level of accuracy and with improved efficiency. Using the units per hour efficiency measure ("UPH"), the average productivity for the period in our mature CFC operations was 145 UPH (2013: CFC1 135 UPH), where we consider a CFC to be mature if it had been open for 12 months by the start of the half year reporting period. By the end of the period, operational efficiency in CFC2 was over 150 UPH.

Ocado order volumes have grown to an average of over 167,000 orders per week ("OPW") (2013: 143,000 OPW) with the highest number of orders delivered in a week exceeding 196,000 during the period. At the end of the period, approximately 60% of orders were fulfilled from CFC1 with the balance from CFC2, in line with our expectations.

We continue to introduce new developments to our CFCs to improve efficiency further in a cost effective manner. Three additional purpose designed and patent pending bagging machines commenced operations in CFC1 during the course of 2H 2014, and we expect to invest in further bagging machines in both CFC1 and CFC2 in future years.

The major phase 2 development works for CFC2 are now complete, and we believe this has increased capacity to approximately 180,000 OPW.

During the year we announced our plans for CFC3 in an existing building in Andover, Hampshire, where works commenced in 2H 2014. We plan to open the site at the end of 2015, following significant building redevelopment and extension work and extensive testing of our new more modular and scalable fulfilment solution. CFC3 will add 65,000 OPW capacity to our operation at a capital cost of £45 million for the MHE.

We have also exchanged contracts for a 30 year lease for a new build site in Erith in southeast London for CFC4, subject to planning consent. The developer is expected to commence work on the site in the first half of 2015, with our works starting in 2016 and with a plan to commence operations during 2017. The MHE solution in CFC4 will ultimately cost £135 million and will add over 200,000 OPW. As with CFC3, this CFC will use our proprietary modular, scalable fulfilment solution and so the investment will be phased over a number of years in line with our capacity requirements. It will also make this the most capital efficient CFC to be built to date.

There will be a further £50 million of building work on items such as fridge plants, mezzanine floors and additional dock doors to take the developer's shell up to the level of building required. Ocado has an option from the developer exercisable by April 2015, to use the site also for Morrisons.com on improved rental terms. In this event, the ramp up of capacity will be completed sooner, and the costs and capacity of the CFC will be shared with Morrisons.

Despite worsening road traffic speeds, our delivery performance continued to improve, benefiting from increased customer density, with deliveries per van per week ("DPV") of 163 (2013: 160 DPV).

We have expanded our delivery capacity with the opening in the period of additional spokes in Ruislip, Enfield, Sheffield and Knowsley, and with a further spoke in Dagenham opening post the period end. Another spoke in Park Royal is set to open in February 2015 to replace our smaller White City location. The delivery capacity for some of these spokes is shared with Morrisons, resulting in improved cost and capital efficiencies during the ramp up phase.



CHIEF EXECUTIVE OFFICER'S REVIEW continued

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"Our customers regularly comment on the outstanding service provided by our delivery team of Customer Service Team Members."

We anticipate that capital expenditure in 2015 will be approximately £150 million, including the expenditure for CFC3 and increased costs for further development for our infrastructure and technology solutions.

ENHANCE OUR END-TO-END TECHNOLOGY SYSTEMS

Since inception we have utilised proprietary IP, knowledge and technology as the foundation of our business. Maintaining and enhancing technology leadership in systems, processes and equipment supports our market-leading proposition to customers and drives operating excellence.

Over time we have developed a proprietary end-to-end solution for operating grocery online, from the point of contact with the customer, through the extensive fulfilment operations, to the delivery of the basket of products to the customer's kitchen. Each stage of the operation is optimised using our software and algorithms. Our technology systems form a key part of this solution.

We are progressing with the replatforming of our IT systems, investing significantly in the use of cloud-based infrastructure, to enable faster replication and roll out of our technology internationally, and remain on track with our plans.

We continue to expand our technology team, and at the end of 2014 employed over 550 developers and IT professionals. We plan to increase this team to 700 people during 2015. Our technology team's primary focus is on improving customer interfaces to support our businesses and those of our partners, replatforming to improve speed of systems development and to enable international expansion, and other projects to drive efficiency in our operations.

ENABLE MORRISONS' AND FUTURE PARTNERS' ONLINE BUSINESSES

Our leadership in IP and technology affords us opportunities to generate significant value for Ocado through the commercialisation of our IP.

The first commercialisation of this IP was our agreement with Morrisons which was completed in July 2013 and we were pleased that Morrisons.com was launched as planned with the first orders delivered on 10 January 2014. Morrisons.com uses our existing CFC technology and solutions and has continued to ramp up well in line with our and Morrisons' expectations.

We continue to receive interest from a broad group of potential international partners to discuss how we might assist them in introducing or improving online business in their own markets. We have now combined our end-to-end technology platform with our modular infrastructure solution to form "Ocado Smart Platform" as a single service offering. We will make this available to potential partners to power their online grocery retail businesses.

During the period, we started to engage in more detailed discussions with several parties with a view to utilising Ocado Smart Platform to drive the launch or growth of their online businesses. We expect to incur up to £5 million in 2015 in additional administrative costs to enable us to develop the Ocado Smart Platform capability further and negotiate platform service agreements. We are targeting to sign the first such agreement during 2015 although there is no guarantee we can meet this timeline.

MARKET BACKDROP

Despite the more positive outlook for broader economic growth in the UK, we believe the grocery market remains subdued.

Moreover, during the period there has been more emphasis placed on price initiatives in the market by the major supermarket groups, particularly to counter the growing threat from discount operators which is exacerbating the decline in supermarket store sales. We have seen prices of certain key value items, primarily in fresh private label categories, impacted by these initiatives, and we will continue to assess price developments in the market carefully.



View more information about Ocado Smart Platforms on pages 28 & 29



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Notwithstanding this broader market activity, online grocery shopping continues to expand faster than the total market, although more recently some of our competitors' growth appears to have slowed, evidenced by the online growth figures reported across the industry. All the major UK supermarket groups continue to invest to satisfy this growing online demand with a general acceptance that online continues to become a more mainstream channel for grocery shopping.

Overseas there continues to be more interest and investment in online services in many markets as major incumbent grocery retailers seek to address this channel shift, and by online retailers such as Amazon Fresh helping to drive both consumer interest, and corporate focus, in online grocery shopping.

PEOPLE, RECOGNITION AND AWARDS

By the end of the period, we employed over 8,500 people, having created over 1,800 jobs during the year, supporting the growth of our Ocado retail businesses, our Morrisons platform business and the development of Ocado Smart Platform. We anticipate this number rising by around 2,500 people during 2015.

The energy and commitment of our people remains central to our success and I want to acknowledge their tremendous efforts throughout this very busy period. Our customers regularly comment on the outstanding service provided by our Customer Service Team Members.

We are delighted that the efforts of our people were recognised with a number of awards during 2014, including the Best Online Grocer by Which? Magazine (Members' Annual Satisfaction Survey), Best Online Retailer (Gold) and Supermarket of the Year (Silver) in the Loved by Parents Awards, and Best Organic Supermarket in the Soil Association Organic Awards. We also received recognition of our extensive offering in our 'free from' range with Best Large Online Supermarket 2014.

We also won a number of awards for our Ocado own-label products. These included the Loved by Parents Best Grocery Product for our Ocado own-label organic juicing boxes, fruit boxes and vegetable and salad boxes, as well as for a range of our fresh fish by Quality Food Awards.

In September, to coincide with the new academic year, we launched 'Code for Life', an Ocado Technology CR initiative to encourage and support primary school teachers to deliver the new Computer Science curriculum. The initiative has been supported by BCS Academy of Computing, Computing at School, the teaching community and education specialists, and has already had several hundred schools sign up. We are thrilled with how this has been received and look forward to supporting this important initiative in the future.

We received recognition of our continuing efforts in CR winning the PRCA Award for CSR Campaign of the Year 2014 with our "Britain's Next Top Supplier" initiative.

BOARD UPDATE

Jason Gissing, a co-founder of Ocado, took the decision to retire from the Board at our annual general meeting on 10 May 2014. I would like to thank Jason for his valuable contribution over many years, and wish him well for the future.

