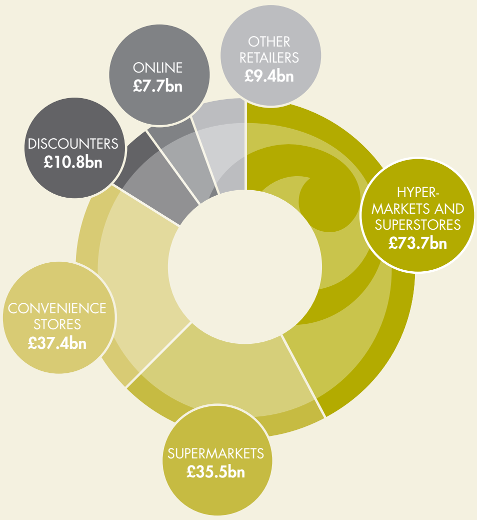
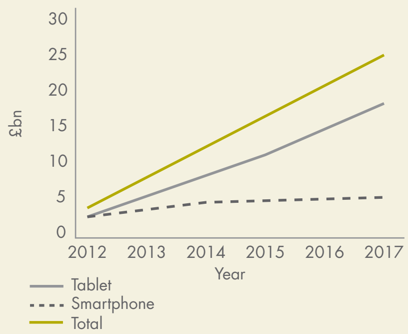
OUR MARKETPLACE

CHANNELS THAT MAKE UP THE UK GROCERY MARKET (2014 SALES)



Source: IGD

UK MOBILE RETAIL SALES



Source: Adactus

UK RETAIL

The grocery market in the UK is substantial. IGD estimates that in the year to April 2014, UK grocery sales reached almost £175 billion, representing almost 55% of all retail spending.

While still accounting for over 60% (IGD) of all grocery sales, the so called "big box stores" (supermarkets, superstores and hypermarkets), have been reporting slowing, or no, sales growth, and in many cases absolute declines.

Growth in grocery retail has traditionally been driven by the opening of new store space, either through the opening of new stores or extension of existing shops, creating a "space race" model for growth. This has been dependent on growing customer footfall to fill the expensive real estate. However, the grocery retail industry is undergoing significant change, with new store formats, notably hard discount and convenience stores, growing much faster than traditional supermarkets. These formats have been able to drive an advantage in a particular element of the proposition to customers, be it price or convenience.

Moreover, there has been continued significant growth in online grocery shopping. This shift in channel, away from physical shops, is arguably the most significant. With online, there is the opportunity to improve every element of the proposition for the customer, giving the benefits of more service and greater usability, wider choice of products and better value for money. With each element of the proposition improving, and enabled by ever improving technology advances, more customers are encouraged to adopt the new retail channel.

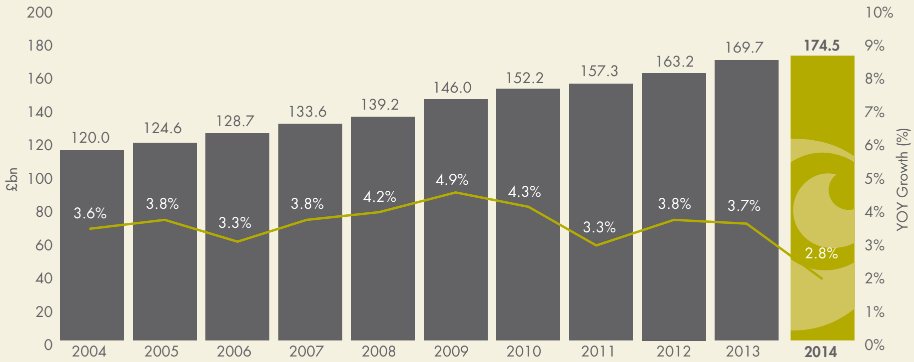
THE CONTINUING CHANNEL SHIFT

Evidence suggests that customers are shopping online for their groceries in ever increasing numbers with IGD estimating that 4.4% of UK grocery shopping is now online at £7.7 billion, and anticipates that this will nearly double to over 8.3% of the market by 2019. More recent data suggests mobile devices are increasingly used for online shopping with mobile now the fastest segment of online growth.

We have seen other segments of retail migrate online with very significant impact. We have built our business to be at the forefront of, and to benefit from, this next channel shift in the grocery industry.

Channel shift is driven by improvements in the overall quality of the proposition presented to the customer. We explore on the next page the key proposition drivers and how online, and in particular Ocado, improves these supporting the continuing growth of the channel.

SIZE OF THE UK GROCERY MARKET



Source: IGD. Data is year to April. UK Grocery: Market and channel forecasts 2014–2019

Key proposition drivers	How we're responding
Service • Reliability • Ease and convenience • Personalisation	We provide industry leading service in terms of timeliness and order accuracy. Our technology also enables us to make the shopping interfaces increasingly simple to use and personalise the shopping experience for each customer. Online shopping returns time, service and convenience to the customer, with the retailer performing the tasks the customer does in a physical store (driving to the store, walking the aisles and picking items, packing product at the checkout, loading the vehicle (car) and delivering to home).
Range • Extensive range offering more choice of quality, relevant products • Ease of navigation	Our centralised fulfilment model enables us to carry a greater range than stores, giving the customer the ease of shopping from a greater product selection from the comfort of their own home. We have now introduced additional dedicated "department stores" for certain product categories.
Price • Offering good value • No more expensive than the store • Acceptable service charges trending down	Product prices online today (in the UK) are broadly the same as in the store, with a modest delivery fee. Our model will enable us in the future to drive prices down as we scale our business and return the benefit to our customers.

PRICE COMPETITION

Recent attention has been placed on price competition in the UK grocery market.

The continued growth of the hard discount format – smaller format stores offering limited ranges, mostly private label, at relatively competitive prices – has driven an increased focus on price, or rather price perception, from the larger players.

The key areas for much of the recent price activity has been in private label fresh produce items, key value items in dairy, fruit and vegetables, with some meat and fish categories. There has been less price focus on branded products, with some promotional activity reducing.

While we have less range overlap with the hard discount retailers, we offer competitive prices on the quality products we sell, with price commitments to match the market leader on comparable baskets and identical items.

Our continuing growth enables us to generate further efficiencies through improved operational leverage in our business, which supports our ability to invest in all elements of the proposition to customers, including prices.

CANNIBALISATION

Each of the leading grocery retailers has its own online operations today, mostly using its existing physical stores to fulfil online orders. Some have started to build so called "dark stores", stores without customers or in effect smaller warehouses with no or limited automated processes. The one exception is Morrisons, which uses our technology platform and fulfilment knowledge and services to run Morrisons.com.

The one challenge common to all incumbent physical retailers as they move online is the cannibalisation of their existing store businesses. With footfall declining in stores as customers migrate to online shopping, each store operator will cannibalise the sales in a store, either that of a competitor or its own. If most major store operators are growing online, together with our pure-play online model, the store channel will continue to suffer significant cannibalisation of sales in the future.

View more information about Morrisons.com on page 26

> "Online shopping returns time, service and convenience to the customer."

> "We have built our business to be at the forefront of . . . this next channel shift [to online] in the grocery industry."