Directors' Remuneration Report

Dear Shareholder,

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for 2018.

The performance of the Group saw continued growth in the retail business, steady improvement in the efficiency of the platform and a very rapid expansion of the Solutions business. The Group achieved strong gross sales® and customer growth and increased EBITDA® for the 52 weeks ended 2 December 2018. The shareholders recognise the strong growth of the Group, with the share price having increased 129% from December 2017 to December 2018.

The Remuneration Committee is committed to ensuring the Company's leadership is motivated to deliver long-term sustainable growth through successful implementation of the strategy. This year we are putting forward a revised 2019 Directors' Remuneration Policy (the "2019 Policy") for shareholder approval at the Annual General Meeting on 1 May 2019. In addition, we have taken on board feedback received from shareholders both through consultation for the 2019 Policy and in previous years on matters related to remuneration and governance structures, as well as carefully considering the changing legislative and regulatory environment in both Ocado's remuneration and disclosures.

Relationship Between Pay and Performance

We have approved a bonus payment to the Executive Directors based on 69% to 72% achievement against objectives under the Annual Incentive Plan ("AIP") for the period. More detail about the bonus plan can be found on pages 93 to 94.

During the period, we reviewed the performance against the 2016 Long Term Incentive Plan ("LTIP") award targets, which had a performance period ending on 2 December 2018. The 2016 LTIP awards were subject to the achievement of targets relating to the retail business and the platform business, including the operational efficiency and the capital costs for the Ocado Smart Platform. Based on the results to the end of the performance period, the Directors achieved 50% against the performance targets as a result of progress made in improving the Andover CFC. The 2016 LTIP awards are expected to vest in March 2019. More detail about the LTIP vesting can be found on page 95.

In 2014, the Remuneration Committee implemented a one-off five-year Growth Incentive Plan (GIP) to incentivise a focus on the key strategic drivers and delivery of exceptional growth and return to shareholders over the long-term. The GIP is due to vest in May 2019 dependent on Ocado's share price growth relative to the FTSE 100 over the five-year performance period exceeding the threshold. While the GIP has been successful in incentivising management to deliver the growth experienced in the last year, it was not without its structural flaws, in particular its point-to-point measurement leading to a very binary outcome; it was effectively "underwater" for four of the five performance years and therefore potentially ineffective as an incentive and retention arrangement for this period.

Base salaries, which underpin retention of the Executive Directors, were reviewed during the period. An increase of 3% was approved, which is broadly in line with the Group's employee salary percentage increase and business plans and will be reviewed in the coming period. When reviewing base salaries, the Committee is mindful of Group performance and the increasing complexity of the business.

The Annual Report on Remuneration on pages 88 to 103 contains details of the remuneration paid to Executive Directors during the period.

The 2019 Directors' Remuneration Policy and Key Changes to Executive Director Remuneration

The Remuneration Committee works to ensure that the remuneration framework helps support and drive the Company's strategy.

Under the current schemes, the commercial sensitivity of much of Ocado's long-term strategic plans meant that the Committee has in the past faced some criticism from shareholders and advisory bodies where targets were not disclosed in sufficient detail.

It is the view of the Board that the key measure of the success of the implementation of the Company's strategy over the next period remains the generation of substantial and sustained total shareholder return. The Committee has worked hard to formulate the 2019 Policy and incentive plans that drive exceptional, sustainable growth, also rewarding short-term operational and strategic decisions while addressing the flaws that underlie the long-term plans used historically.

® See Alternative Performance Measures on pages 229 and 230

The proposed changes are as follows:

- Simplification of the current remuneration structure through the replacement of the LTIP and AIP with a new AIP, leading to an overall reduction in total annual variable remuneration opportunity (excluding the one-off plans);
- Mandatory deferral of at least half of any AIP payment into shares (released after five years), with the maximum amount of AIP that can be paid in cash capped at 100% of salary;
- Introduction of a new one-off Value Creation Plan (the "VCP"), where participants share in the Total Shareholder Return ("TSR") generated above 10% Compound Annual Growth Rate ("CAGR") at 2.75% of the value created, measured and banked annually over a five year period. Banked value is subject to phased vesting in years three, four and five, and achievement of a compound TSR underpin of 10% CAGR at each vesting date;
- Additional holding periods such that vested shares become unrestricted no earlier than five years from start of the VCP and the amount that can vest in any given year is capped, with any excess eligible to vest in future years;
- Increase to the minimum shareholding requirement and introduction of a post-cessation employment shareholding requirement; and
- Reduction in the maximum Director pension contribution.

The Remuneration Committee believes that the proposed changes to the 2019 Policy address the challenges set out above and will achieve the goal of motivating and retaining the Executive Directors. The 2019 Policy on pages 107 to 129 will be put to shareholders to vote on at the 2019 AGM. The AIP and VCP are also subject to shareholder approval at the 2019 AGM.

Changes To Non-Executive Director Remuneration

The Non-Executive Directors' annual fees were subject to annual review and, as a result of this review, the basic fees for Non-Executive Directors were increased to £52,000 (2017: £50,000). Fee levels have only increased once since April 2014.

The Committee reviewed the Chairman's remuneration arrangements and have proposed some changes. Upon appointment as Chairman, Lord Rose received a one-off award of 452,284 shares (the "Matching Shares"), which was approved by shareholders at the 2013 annual general meeting. Prior to joining the Board, the Chairman had purchased 750,000 shares on his own account (the "Acquired Shares"). The proposal is to seek shareholder approval to amend the terms of this arrangement to remove a restriction in the terms that prevents the Chairman from selling the Acquired Shares while he remains a Director of the Company. The Committee believes that since the Matching Shares, which vested in May 2016 and belong to the Chairman, would remain subject to an ongoing restriction that prevents sale of these shares, these arrangements alone provide sufficient alignment of interests between the Company and its shareholders and the Chairman.

Shareholder Consultation and Remuneration Disclosure

In preparing the 2019 Policy, an extensive shareholder consultation exercise was carried out with the Company's largest shareholders and representative bodies. In formulating the proposals, the Remuneration Committee carefully considered the shareholder feedback that had been received. We contacted the 20 largest shareholders, as well as Glass Lewis, The Investment Association and ISS, to consult on proposed changes to the policy, and I would like to take the opportunity to thank them again for their input. Further details on the consultation can be found on page 110.

While the UK Corporate Governance Code 2018 (the "2018 Code") does not apply to the Company yet, the Company is able to evidence that it is compliant with a number of the provisions of the 2018 Code from a remuneration perspective, including with regards to the proposed 2019 Policy and the disclosures throughout this report.

Executive Remuneration and the Broader Context

Ocado is committed to ensuring its workforce has the diversity of talent and expertise that it needs for the business to continue to grow and innovate. Our people are critical to us achieving the strategy and we are committed to hiring and developing the highest quality talent throughout Ocado, ensuring our people are rewarded fairly and competitively for their contribution to the Company's success. When making decisions on executive remuneration, the Committee references a number of factors related to the wider workforce, including the all-employee remuneration report. Further details on workforce remuneration can be found on page 111.

I will be available at the AGM to answer any questions about the work of the Remuneration Committee.

Andrew Harrison
Remuneration Committee Chairman
5 February 2019