

QA

with Tim Steiner
Chief Executive Officer



Q What risks do retailers face if they don't have an e-commerce presence?

A I think the biggest risk we can see in the UK is not simply losing your best customers' primary shopping trip, but losing your best customers – full stop.

Q How is technology changing the e-commerce grocery landscape?

A As an e-commerce operator, we're expected to do the work the consumer does in a traditional supermarket – driving, walking the aisles, picking goods, taking them to the till, packing them up and taking them home. What we've been doing for the last 15 years is deploying technology so we can do that extra work, yet at a lower cost. So we're producing the best service for the consumer, while actually creating a fully economic and sustainable model. We've done that by taking a different approach.

Q What role does innovation play at Ocado?

A We're increasing automation to lower the warehouse cost, and creating new delivery solutions to lower delivery costs, to help improve margins. We're investing in the front end to build a better experience for the consumer, to build loyalty. In fact, we're working on innovation for every place where we interact with a customer.

Q Why has Ocado made its Ocado Smart Platform (OSP) available to others?

A We've built a successful e-commerce business in the UK, and think we're in a powerful position to help retailers in other parts of the world do the same. Retailers have a significant presence in their local markets, with customer knowledge, buying power and presence. The combination of their skills, knowledge and presence with our IP, technology and logistics skills can be a very powerful combination.

Q How will an OSP partner of Ocado benefit from Ocado's constant innovation?

A They'll get the benefit of all our innovations. For example, when we're able to add more robotics and automation at facilities, to reduce the amount of people it takes to serve the same number of customers, that's what they'll also get offered. That's the best thing about being an OSP customer – the ability to continue to benefit from all our ongoing investment.

Q How does Ocado stimulate customer loyalty?

A We provide the best possible service by improving our interfaces to allow customers to buy from the widest range of products quickly and by operating our model accurately and efficiently so the customer gets what they want when they want. As we do this consistently our customers trust us and stay loyal.

Chairman's Statement



I am pleased to introduce this year's Strategic Report. The year to December 2018 has been one of the most exciting yet, both in the lifetime of Ocado and in my time as Chairman of Ocado.

I've had the privilege of seeing, first-hand, the results of a business made up of talented and committed people who are focused on continuing to grow this business and deliver while exceeding the expectations of customers, building and improving our ground breaking technology, and making a positive contribution to the communities and wider society that the Company serves.

It has been a year of transformational change at Ocado, with significant development of the Solutions business, continued growth of the Retail business in the UK, and ongoing investment in and advancement of Ocado Smart Platform (OSP). The increase in the value of the Company was reflected in it joining the FTSE 100 index for the first time, a significant achievement for such a young company.

We aim to provide our retail customers and commercial partners with an advanced online grocery shopping solution. The Ocado Solutions business took exciting steps in delivering this strategy and has now signed five international partners. During the prior year, Ocado signed an agreement to provide OSP to Groupe Casino in France and we secured an agreement with Bon Preu in Spain to help build its online grocery business using OSP. We signed further deals this year with Sobeys in Canada and ICA in Sweden to allow them to grow

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Lord Rose
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and develop their online food businesses. We signed a partnership agreement with Kroger in May 2018 and a Master Services agreement in October under which Ocado's technology will be used in the US exclusively by Kroger for grocery and other food distribution related activities. These significant commitments, although having negative impact on reported earnings in 2018 and 2019, partly due to the adoption of the IFRS 15 accounting standard on revenue recognition for contracts with customers, are expected to create significant long-term value.

While these deals are exciting and have changed the business, we now face the task of delivering them. I have had the opportunity to meet with colleagues in the business and examine the challenges we face. There is no doubt in my mind that we have a great deal of work to do in the coming years, and that transformational changes are needed in the business. These challenges are not only in delivering what we have promised to customers, but in ensuring that we have the resources, governance and controls in place to position this Company for its future.

Our Retail business continues to grow profitably while operating in a tough sector, with inflationary pressures on imported food prices and continued competition from the discounters. We expect these challenges to continue, and the business is working to address these market challenges as well as the shift in market dynamics towards increased shopping frequency and greater convenience. Additionally, Brexit has the potential to restrict supply and increase the cost of food from the European Union. Limited availability could impact the range and volume of products we can offer, which is a key part of our appeal to customers. Extensive work with suppliers has been undertaken to mitigate these risks, for each eventuality.

Both the Board and I continue to believe that our retail strategy is the right one; namely to drive growth by broadening our addressable market and differentiating on service and range, while price following the market leader. As well as improving the customer experience, we aim to maximise efficiency by focusing on technology innovation and operational improvements. These changes help to decrease the costs per order and increase the Group's overall profitability and to offset the impact of some of the wider market headwinds, namely rising labour costs.

Our latest CFCs at Andover and Erith will facilitate the growth of the Retail business. One of the biggest challenges facing the Group is ensuring that capacity is made available in time to meet our expected growth in customers. We expect both CFCs to continue to scale with the planned future improvements to the reliability and resilience of software and material handling equipment. Ongoing investment in our technology and engineering capabilities should help ensure we advance towards our operational efficiency targets, though as experienced in the past two years, we do not expect this progress to be without difficulties.

The increase in UK capacity and development of our proprietary platform continues to require significant expenditure. The Group increased the funding available to support this investment during the period. The Group issued a placing of 5% of its shares in February 2018, raising a total of £143 million. Additionally, on signing the partnership agreement in May 2018, Kroger subscribed for new shares in Ocado, equivalent to 5% of the existing issued share capital of Ocado, at a value of £183 million. The increase in funding available will allow Ocado to commit to investment capital expenditure relating to the signing of Ocado Solutions partnerships globally and to increase Ocado's technology engineering and software capabilities.

Continuing to innovate and invest in new technology is key to the creation of long-term shareholder value for Ocado and will be key to our continued growth. The management team is aware that as the business grows, the objective of retaining and recruiting talented people becomes ever more important. Growing headcount in specialist areas of technology and engineering is crucial to meeting our innovation and development plans. We remain focused on this and ensuring that available resources are allocated effectively and prioritised on the Group's most important strategic objectives. Looking forward, we will remain committed to continuing to successfully develop our online grocery shopping solution both for our retail customers and our commercial partners in the UK and internationally. We look forward to delivering this and pursuing many more successful collaborations with leading retailers across the globe.

Lord Rose

Chairman

5 February 2019