

Morrisons to launch online food operation

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Morrison(Wm.)Supermarkets PLC

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Wm Morrison Supermarkets PLC (the "Company" or "Morrisons") today announces a long term agreement with Ocado Group plc ("Ocado"), which will enable Morrisons.com to commence grocery deliveries to customers by January 2014.

The agreement will enable Morrisons to enter the online grocery market quickly with a profitable business model. This industry leading customer proposition combines Morrisons affordable fresh food - much of it from the Company's own manufacturing facilities - with Ocado's leading end-to-end technology, logistics and distribution operations.

The Morrisons.com grocery website will have a clear Morrisons look and feel. Fulfilment will be from Ocado's recently opened Dordon Customer Fulfilment Centre (CFC) in the Midlands, with customer deliveries through a Morrisons liveried fleet.

The agreement will comprise a technology and services arrangement and a sale and leaseback of property and equipment at Dordon. Morrisons will make an initial capital payment of up to £170m to Ocado to acquire Dordon and associated mechanical handling equipment, as well as a licence and integration fee. A further £46m will be invested to expand Dordon in order to accommodate Morrisons range, integrate with Morrisons systems and establish a network of delivery spokes. On an annual basis, Morrisons will pay service costs and a contribution to R&D expenditure. The agreement also makes provision for the joint development of new CFCs as the parties may determine in future. Ocado will receive a share of the

positive EBIT of Morrisons.com. Full details of the financial arrangements are set out below.

Morrisons anticipates that its new food.com business will incur a further £25m development costs in the year, as a result of which, its total full year new business development investment will be £65m. It is expected that the food.com business will generate positive EBITDA in 2016/17 and a positive EBIT in 2017/18. Capital expenditure guidance is increased by £100m to £1.2bn to reflect additional investment in its Morrisons.com business. Full year debt guidance is accordingly increased to £2.7bn.

Dalton Philips, Chief Executive of Morrisons said: "This agreement is a significant strategic step for Morrisons. From a standing start, Morrisons will be competing in the fast growing on-line channel by the end of this year with a really compelling proposition. The customer gets our affordable fresh food delivered by Ocado's state of the art distribution system. I'm confident that Morrisons.com will grow over time to be an operation of real scale and significance whilst creating meaningful long-term value for Morrisons shareholders"

Tim Steiner, Chief Executive of Ocado said: "Morrisons desire to offer its customers the choice of online shopping illustrates the structural shift we are seeing in favour of the channel. We see Morrisons decision to adopt our model to drive its online launch as a further endorsement of our technological and logistical excellence. This validation should support the internationalisation of our model as well as the growth of our UK business by increased market use of our operating model, enhancing capital efficiency and improving returns "Our customers will see no change to the service they receive from Ocado as a result of this agreement. We will continue to source products under our long term agreement with Waitrose, and our customers will continue to benefit from the existing high levels of service, wide range of products and competitive prices that they currently enjoy."

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Notes to Editors

Morrisons

Morrisons is one of the UK's largest food retailers with 500 stores and is the only British supermarket to have its own food processing sites, abattoirs and a farm. It is unique in making almost a quarter of the fresh food it sells in store itself giving it unrivalled control over its supply chain. It's committed to supporting British farming and all Morrisons branded fresh meat is 100% British. It has more skilled specialists preparing fresh food

in store than any other retailer with over 6,000 fully trained crafts people including butchers, bakers, fishmongers and cheesemongers. Every week it serves over 11 million customers. 129,000 colleagues across the business deliver great service to them. Its aim is to give customers more of what matters offering great quality food at low prices.

Ocado

The principal activity of Ocado is retailing, logistics and distribution of grocery and consumer goods through the development of an operating system based on proprietary IP and technology. Ocado operates a state-of-the-art, highly automated centralised distribution model instead of a network of stores from which to service customers, which gives a number of advantages to customers and for the business, and currently has a delivery catchment of around 70% of the UK population. Ocado sells more than 30,000 different products, and has a sourcing agreement with Waitrose, a leading high quality UK supermarket. Ocado sells branded, Ocado labelled and Waitrose labelled products.

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There will be an analyst conference call at 9.15 a.m. today, details as follows:

Analyst dial-in number: 0203 003 4484
Password: 6061317

Replay facility available for 7 days: 0208 1961998
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Introduction

Following the announcement on 14 March 2013 confirming discussions with Ocado plc ("Ocado"), the Board of William Morrison Supermarkets PLC (the "Company" or "Morrisons") today announces that the Company has entered into a 25 year agreement with Ocado to licence its technology, logistics and delivery platform which will enable Morrisons to launch and develop its own online grocery business ("Morrisons.com")

About Morrisons

Morrisons is one of the UK's largest food retailers with 500 stores and is the only British supermarket to have its own food processing sites, abattoirs and a farm. It is unique in making almost a quarter of the fresh food it sells in store itself giving it unrivalled control over its supply chain. It's committed to supporting British farming and all Morrisons branded fresh meat is 100% British. It has more skilled specialists preparing fresh food in store than any other retailer with over 6,000 fully trained crafts people including butchers, bakers, fishmongers and cheesemongers. Every week it serves over 11 million customers. 129,000 colleagues across the business deliver great service to them. Its aim is to give customers more of what matters offering great quality food at low prices.

About Ocado

The principal activity of Ocado is retailing, logistics and distribution of grocery and consumer goods through the development of an operating system based on proprietary IP and technology. Ocado operates a state-of-the-art, highly automated centralised distribution model instead of a network of stores from which to service customers, which gives a number of advantages to customers and for the business. Ocado sells more than 30,000 different products, and has a sourcing agreement with Waitrose, a leading high quality UK supermarket. Ocado sells branded, Ocado labelled and Waitrose labelled products to a delivery catchment covering around 70% of the UK population.

Background to and reasons for the agreement

Morrisons is the UK's fourth largest food retailer and is committed to entering the fast growing online channel. Ocado is one of Britain's leading online grocers and is at the forefront of the development of online shopping and technology.

The agreement will allow Morrisons to accelerate its entry into the online grocery with a cost effective industry leading customer proposition. It will provide Ocado with the opportunity to further develop its technological and logistical excellence and to

accelerate the growth of Ocado.com, improve operating efficiency, create a template for licensing its superior technology.

Morrisons.com will be entirely separate from Ocado's online business, with its own customers and product range. Morrisons customers will order through a Morrisons.com website, selecting products sourced and ranged by Morrisons, fulfilled and delivered using Ocado's services in a Morrisons liveried van.

Principle terms of the agreement

There are two principle elements to the agreement:

Technology licensing and services arrangement

Ocado will provide Morrisons with a range of services enabling Morrisons to launch its online grocery offering out of the Dordon Customer Fulfilment Centre ("CFC"). In return for this, Ocado will receive a number of different payments:

- A payment of £30 million to license current technology and IP;
- An annual IT payment of initially 1% of Morrisons.com revenue, with a minimum of £3.5m, to cover the maintenance, operations and infrastructure costs of IT services;
- Morrisons will make payments to cover certain costs based on:
 - its share of the variable costs of the Dordon CFC;
 - 50% of the fixed costs, maintenance, replacement and expansion capital expenditure of the Dordon CFC;
 - a proportion of the fixed costs and share of variable costs, based on agreed capacity usage of certain Ocado spoke sites;
 - Operating costs within the CFC are subject to a management fee of 4% (excluding rent). Within the spoke network, the management fee applies to employment costs only, and is not attributable to fuel.
- Morrisons will pay an annual fee in respect of future R&D commencing in 14/15, calculated as one third of Ocado's relevant annual R&D spend with the fee being fixed at £8 million for the first two years and capped at £8 million thereafter;
- Ocado will also receive a services bonus fee. For the first 15 years, this is set at a minimum of 25% of the positive only annual EBIT of Morrisons.com, which reduces to 10% after 15 years. If Morrisons.com EBIT increases above 6.6%, the services bonus fee increases to 50% of incremental profit.

Sale and leaseback of property and equipment

Ocado currently holds a long leasehold interest in the land and buildings of the Dordon CFC. Interests in the land, buildings and mechanical handling equipment ("MHE") of the Dordon CFC will be acquired by Morrisons at book value on the following terms:

- Morrisons will acquire the shares of Last Mile Developments Limited, the holding company of the Dordon CFC ("LMD") and will procure the discharge of approximately £80 million of internal and external debt owed by LMD;
A new 25-year lease will be granted by LMD to Ocado at an annual rental of approximately £4.9million, of which 50% will be on-charged to Morrisons.com for its share of the Dordon CFC capacity;
- Ocado will sell the MHE to a new joint venture company owned 50/50 by Ocado and Morrisons, with Ocado receiving a consideration on completion of approximately £55 million in cash, in addition to its 50% share of the company with a potential £3m thereafter; and

With the addition of planned expansion capital expenditure, the Dordon CFC is projected to have a total capacity of 180,000 - 190,000 orders per week at peak. Under the terms of the arrangement, Morrisons will have available for its use 50% of this capacity.

Once the Dordon CFC becomes insufficient for the parties' projected needs, the parties will expect to agree to develop new CFCs, to be built and operated by Ocado for either joint or sole use. The capital and operating costs of any joint use CFCs will be shared between the parties based on their agreed capacity share. Sole use CFC's built for Morrisons will be operated by Ocado.

Further provisions of the agreement

In the event that the commencement date for Morrisons.com does not occur by 31 July 2015, the Ocado group will be obliged to buy back from Morrisons the entire share capital of LMD and Morrison's 50% holding in the MHE joint venture, in each case at a price reflecting the original purchase price less depreciation.

Services commencement is currently targeted for January 2014.

There is an obligation under the agreement that Ocado will provide the same standard of services to Morrisons as it provides to Ocado.com, expected to be the best end-to-end operating model for the grocery industry in the UK. In addition, there are requirements to achieve certain minimum service levels with reductions in the management fee in the case of these not being achieved.

The agreement contains an exclusivity arrangement, under which Morrisons will only operate its online grocery business in Great Britain through Ocado, and Ocado will not provide similar online grocery services in Great Britain to more than one competitor of

Morrisons at any one time (including the current Ocado online grocery business).

The agreements contain a number of termination rights including:

- either party having a right to terminate the agreement if, before completion, a third party makes an offer for the entire issued share capital of the other and such offer obtains a board recommendation;
- after completion, either party having a right to terminate the arrangements if a competitor acquires control of the other.

Ocado is liable to pay Morrisons a break fee of £7 million if Morrisons terminates the agreement before completion by reason of Ocado failing to hold a shareholder meeting by 14 October 2013, Ocado's Board withdrawing its recommendation to Ocado's shareholders to approve the arrangements, or a third party making an offer for Ocado which offer is recommended by Ocado's Board. Morrisons is obliged to pay Ocado a break fee of £7 million if Ocado terminates the agreement before completion by reason of a third party making an offer for Morrisons which offer is recommended by Morrisons Board.

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