

Extension of agreement with Wm Morrisons

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Ocado Group plc

Announcement of extension of agreement with Wm Morrisons Supermarkets plc ("Morrisons")

Following the announcement of an in-principle agreement on 29 February 2016, Ocado is delighted to announce that it has concluded its agreement with Morrisons to share some of the capacity of Ocado's customer fulfilment centre ("CFC") currently under construction in Erith, south east London.

The Erith CFC is due to commence operations in Ocado's 2018 financial year and is expected to have eventual capacity in excess of 200,000 orders per week.

Morrisons is the fourth largest UK grocery retailer. It became the first customer of Ocado's technology platform and existing infrastructure facilities when, in 2013, the parties entered into an agreement for Ocado to provide certain technology, logistics and distribution services to enable Morrisons to launch its online grocery business, Morrisons.com (the "Operating Agreement").

Since then, Ocado has launched the Ocado Smart Platform ("OSP") proposition, a solution that aims to enable retailers to run a successful online grocery business. The terms of the new agreement with Morrisons are structured in a similar way to those offered to potential OSP customers with significantly lower up-front capital costs and on-going annual fees dependent on capacity.

Ocado has also agreed to license to Morrisons its newly announced store pick module from the OSP solution; this new module will allow OSP customers further options to expand their online businesses (the "OSP store-pick solution"). This module will provide Morrisons with all of the software necessary for it to fulfil online orders from its stores alongside those online orders fulfilled by Ocado for Morrisons from its CFCs.

Agreement in respect of the Erith CFC

- Following a two year ramp-up, Morrisons will be entitled to a fixed amount of capacity equal to approximately 30% of the expected mature capacity of the Erith CFC, subject to a number of operating assumptions.

- For its share of the capacity of the mechanical handling equipment ("MHE") located at the Erith CFC, and to meet ongoing MHE maintenance and replacement costs, Morrisons will, from the launch of the site, pay Ocado annual capacity fees. These capacity fees are combined with a partial reduction in the annual R&D fee paid under the Operating Agreement.
- Morrisons will have no ownership interest in the MHE or in Ocado's lease of the Erith site.
- Morrisons will meet 30% of the initial building costs at the Erith CFC and will meet a similar percentage share of all ongoing building and other fixed costs (including rent and rates) at the Erith CFC. It will also meet a pro rata share of all variable costs. Certain of the fixed and variable costs will attract a 4% management fee.
- The term of the agreement in respect of the Erith CFC will be approximately 30 years, although Morrisons may terminate the agreement (in respect of the Erith CFC only) following the fifth anniversary of launch. If Morrisons terminates before the tenth anniversary of launch, it will be required to pay Ocado a compensation fee, less an amount in respect of the building costs it had met. Following a termination the partial reduction in the annual R&D fee would be reversed.

OSP store-pick solution

- Ocado has agreed to license to Morrisons the store pick module from the OSP solution, which is the software platform required to fulfil online orders from its stores.
- The physical fulfilment process enabled by the store-pick solution will be operated by Morrisons, with Ocado providing and maintaining the software platform.
- Morrisons will pay certain up-front fees for access to this platform together with an annual licence fee calculated as a percentage of the sales generated using the software (and subject to an annual minimum). Morrisons will pay for and operate the delivery fleet for OSP store-pick.
- It is expected that Morrisons will commence the roll out of the store-pick solution in 2017.

Other amendments to the Operating Agreement

- The Operating Agreement is broadly unaffected by the new arrangements, save that, from the date on which the store pick solution is rolled out beyond the initial pilot:
 - o The exclusivity restrictions on Ocado shall be reduced, allowing it to provide services to certain UK grocery retailers previously excluded under the original arrangement.
 - o Ocado shall waive its right to additional fees when Morrisons.com becomes profitable.

General merchandise supply agreement

- Separately, Ocado has agreed to expand elements of the Operating Agreement from grocery to general merchandise, and act as Morrisons' sourcing agent in respect of certain general merchandise products.
- The agreement will enable Morrisons to range these products on Morrisons.com and take advantage of some of the capacity in Ocado's general merchandise distribution centre.
- The arrangement is expected to strengthen the operating contribution made by Ocado's general merchandise business to the group and enhance its purchasing strength in the relevant categories.

Anticipated financial impact of the agreements

Although Ocado expects these agreements to be earnings accretive, there is limited impact on its profit before exceptionals in the current or 2017 financial years, with the majority of fees received in these periods being absorbed by the incremental costs to be incurred. The recurring annual fees payable by Morrisons in respect of the Erith CFC are not expected to become payable until the 2018 financial year, and the recurring fees in respect of the store pick solution are not expected to become payable until the end of the 2017 financial year.

Ocado does not expect to incur significant additional capital expenditure in respect of either agreement since it was already developing the Erith CFC and the store pick software.

Ocado's requirement for further CFCs for its own business shall be brought forward as a result of Morrisons' sharing of the Erith CFC.

Tim Steiner, CEO of Ocado said "I am delighted to announce this extension to our agreement with Morrisons, which will provide them with additional capacity for the growth of their online business, supported by our proprietary technology and infrastructure solutions.

We see this agreement as a further endorsement of the strength and attractiveness of our capabilities that we can provide to our existing UK partner, and for retail partners globally."

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Notes to editors

About Ocado

Ocado is a UK based company admitted to trading on the London Stock Exchange (Ticker OCDO), and is the world's largest dedicated online grocery retailer, operating its own grocery and general merchandise retail businesses under the Ocado.com and other specialist shop banners.

About Ocado Smart Platform

Ocado began the commercialisation of its intellectual property with its agreement to operate the online business of Morrisons.

OSP is designed to be an enabling platform available as a service to retailers, with access to Ocado's proprietary physical infrastructure solutions to run highly efficient warehouse operations for the single pick of products together with the entire end-to-end integrated software required to operate an online grocery business, including store pick software (enabling retailers to pick online grocery orders from their stores), warehouse operating and control systems and software to enable logistics, route planning and optimisation, and underpinned by Ocado's expertise and experience as a dedicated online grocery operator.

OSP will provide multiple advantages to Ocado's future clients wishing to operate online including:

- based on proven systems and infrastructure which Ocado will be using in its own business
- offering retailers the ability to pick customer orders from stores and central warehouses on the same platform
- both modular (size flexible) and scalable (can start smaller and scale up on short lead times)
- significant operational cost benefits
- supporting a large range and short fulfilment lead times to support same day, next day or longer order periods
- Entirely flexible to support home delivery, unattended delivery, pick up, courier or other last mile distribution options
- entire seamless proprietary software provision updated alongside Ocado's own development programme, providing "best in class" service for customers
- flexible agreement terms with low entry cost and ongoing fees linked to installed capacity.

Cautionary statement

Certain statements made in this announcement are forward-looking statements. Such statements are based on current expectations and assumptions and are subject to a number of risks and uncertainties that could cause actual events or results to differ materially from any expected future events or results expressed or implied in these forward-looking statements. Persons receiving this announcement should not place undue reliance on forward-looking statements. Unless otherwise required by applicable law, regulation or accounting standard, Ocado does not undertake to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise.

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