

## Chief Executive Officer's review

"Against the backdrop of a weak UK economy, we have continued to see material growth in the online grocery market. We believe this is evidence of a structural shift in consumer behaviour; we expect continued expansion of this market in the future."

**Tim Steiner** Chief Executive Officer



During the past year, Ocado has made significant progress in growing sales and increasing capacity to support future growth. Against the background of the weak UK economy, gross sales have grown by 16.6%. We are very grateful to our customers for their loyalty and support.

### Market development

The importance of the online grocery market in the UK, while still in its infancy, is now recognised by most major grocery retailers. Customers continue to migrate from shopping in stores for groceries to shopping online. This is borne out by average orders per week at Ocado in 2011 increasing by 18.6% from 92,916 to 110,219. A recent report from the Institute of Grocery Distribution forecast that the UK online grocery market will reach £11 billion of sales by 2016. We believe the biggest threat to the growth of the online market is under-investment; retailers will not be able to fully service increasing customer demand unless they invest in online sales capacity.

Competition in the online grocery sector is already as strong as the traditional store-based sector, and will almost certainly increase. We believe the best way for Ocado to acquire new customers, as well as retain existing customers, is to continue to develop and improve the Ocado offer. We have worked to improve this on many levels for the benefit of our customers.

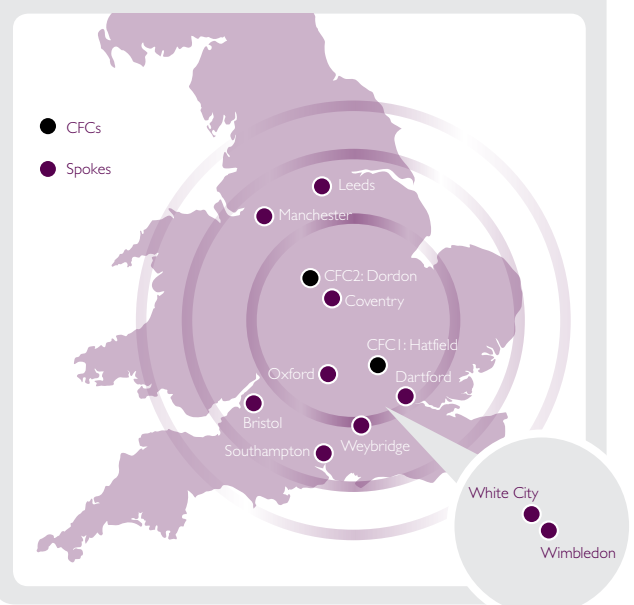
### Capacity expansion

This year we developed CFC1 towards its ultimate capacity of 180,000 orders per week. Investment was made in major upgrades to our proprietary software running the warehouse operation; in additional storage, picking and tote conveyor capacity; and in the power infrastructure of CFC1. In 2012 we are planning further investment in CFC1 to take capacity to around 160,000 orders per week by year end.

As I have said in previous updates on the business, increasing the capacity of CFC1 to cope with increased sales demand has presented operational challenges. During the year several major construction projects were completed in CFC1 while the picking of groceries continued. That we were able to do this is a credit to the planning and execution skills of our engineering and CFC1 teams. We temporarily reduced our product range to under 20,000 lines during the year to create space for construction of additional automation. In H2 2011 we hired additional temporary staff and reintroduced some manual trolley-picking to provide a short-term increase in operational capacity. As a result of these changes, CFC1 efficiency measured in units per hour ("UPH") dropped by 8.2% from 121 UPH to 111 UPH. As new equipment becomes operational in CFC1 over the next 12 months, we expect to see a rise in efficiency towards our long-term target of 180 UPH.

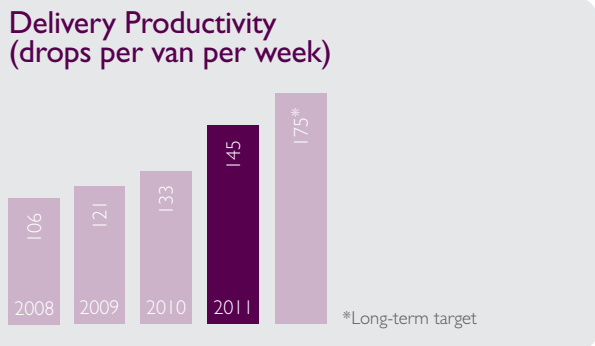
### Ocado's marketplace

COVERAGE: OVER 70% OF UK HOUSEHOLDS AND GROWING



FACT

OVER 30,000 LITRES OF MILK ARE DELIVERED DAILY TO OUR HATFIELD CFC FOR NEXT DAY DELIVERY TO OUR CUSTOMERS



Construction is advancing well at CFC2 in Dordon, Warwickshire. Work on the building, services and ancillary infrastructure is substantially complete and equipment installation has started. It remains on budget and on time to open in Q1 2013. Systems testing is currently planned to start in mid-2012, with initial operations scheduled to commence in early 2013, giving us a six month testing and commissioning window. We believe CFC2 will represent the single biggest increase in capacity by a grocery retailer serving the online market in the UK. It is a key part of our drive to secure Ocado's leading position in this fast growing market.

### Customer demand

More customers are shopping online, and doing so more frequently. This is causing a slight decline in basket size, and we have seen the average order size at Ocado during the year fall by 1.7% from £114.06 to £112.15. Most of this decrease is due to the shift of customers towards the Ocado Delivery Pass ("ODP"), one of our key customer loyalty schemes. There are two reasons for this: the majority of Ocado orders are now placed using the ODP scheme, and these customers have a higher overall spend as increased shopping frequency more than offsets the lower average basket for this customer group. Nevertheless it is also clear that Ocado customers are feeling the same budgetary pressures that are affecting British consumers elsewhere and towards the end of 2011 we began to see a slight change in product mix and baskets that were on average one item smaller.

### Operating efficiency

Our delivery network's performance continued to improve throughout the year. We opened new spokes in Bristol and Wimbledon and after the period end, in Oxfordshire. The Bristol spoke has enabled us to expand our service coverage into the South West of England and South Wales. Whilst we already operate in Wimbledon, this new spoke increased our capacity in the London area by around 17,000 orders per week. The opening of these spokes increased the operational efficiency of our existing delivery network.

The increasing scale of the business, combined with ongoing upgrades to routing software and van design have contributed to deliveries per van per week ("DPV/week") increasing by 8.7% to 145 DPV/week. During the year the peak was 165 DPV/week. The on-time delivery performance was 92.3%, down from 94.9% in the previous year; largely due to the impact of significant development works in CFC1.

### Grocery range

We have continued to develop our grocery range and Ocado now offers a grocery range equivalent in size to our largest store-based competitors. Our investment in CFC1 will enable us to grow this from the level of around 20,000 products we had at year end, to over 30,000 products over the next year. The Ocado own-label range has more than doubled during the year to 620 products. Our own-label range is comparable in price and quality to similar products of our major competitors and has proved very popular: 70% of all Ocado baskets now contain at least one Ocado own-label product. In addition, we have a growing number of specialist ranges such as Carrefour's "Reflets de France" range of authentic French produce, as well as leading organic suppliers such as Daylesford Organic and Laverstoke Park Farm.

### Non-food business

In line with the objectives we set out at our IPO, we continue to expand our range of non-food items. We recruited a dedicated non-food team to drive this expansion forward. We plan to increase significantly our non-food range by the end of 2013.



## Chief Executive Officer's review continued

“We will continue in 2012 to pursue our core strategy of improving our offer to customers and increasing capacity to meet growing demand. It is our mission to ensure that customers continue to regard Ocado as the market-leading offer in online grocery shopping.”

**Tim Steiner** Chief Executive Officer

### Value

We continue to focus on offering greater value to an ever widening customer base. We have done this by investing in price in four main ways: increasing the number of products on promotion, continuing our Tesco price match on all identical products not on promotion to approximately 7,000 products by the end of 2011, expanding the Ocado own label range, and launching the Ocado Saving Pass. The Ocado Saving Pass enables our customers to make at least a 10% saving on over 600 leading branded products. This includes products that are already price-matched to Tesco, in return for a small annual fee. All these initiatives were achieved while delivering the freshest produce to customers through our shorter supply chain, accompanied by our product life guarantee.

### Technology and innovation – website and mobile interfaces

The launch of Ocado's latest Webshop was completed in Q1 2011. It has proved to be very successful, receiving excellent customer feedback. The Webshop enabled customers to shop up to 25% faster than before. We regularly make enhancements to our Webshop and use our technological base to improve the customer experience and service. We launched “shop in shop”, allowing suppliers to showcase their specific ranges in their own dedicated section of the Webshop.

Checkouts via mobile devices grew to 18% of checkouts by the end of the period, up from 12% at the beginning of the year.



We enhanced the functionality and usability of the existing Ocado apps available for the iPhone, the iPad and the Android platform, and developed Ocado apps for the BlackBerry and the Windows Phone 7 mobile devices.

Other software developments included our “One-Click Additions” feature, allowing customers on mobile devices to amend an existing delivery without needing to check out again. Ocado is the only UK supermarket to offer customers full shopping functionality on all leading smartphone devices. We also implemented a new CRM platform to improve the efficiency of our call centre and provide substantial benefits to customer service. Ocado's software development achievements were recognised with Ocado being awarded a Grocer Gold Award for Consumer Initiative of the Year in 2011.

FACT

OCADO CFC COMPUTERS MAKE OVER 10 MILLION CONVEYOR-BELT ROUTING DECISIONS EVERY DAY

FACT

A RECENT STUDY REVEALED THAT 69.5% OF OUR BASKETS OF BRANDED PRODUCTS WERE CHEAPER THAN TESCO.COM

### People and recognition

The key to our success is the energy and commitment of nearly 6,000 employees in different areas of the business. I would like to recognise the tremendous efforts made by them throughout the year. Our customers and industry observers regularly comment on the outstanding service provided by our delivery team of over 2,000 Customer Service Team Members. The measures taken by Ocado to make its delivery vehicles safe were again recognised in 2011 by Ocado winning for the second year running the Safe Vehicles Award at the Fleet Safety Forum Awards, organised by road safety charity Brake. Ocado also won the Fleet Van Operator of the Year at the Fleet Transport Awards.

The overall standard of the business was again recognised with our selection as a finalist for the Etailer of the Year award at the 2011 Oracle World Retail Awards, and being voted the favourite online supermarket in the Which? Magazine reader surveys. In November 2011, we signed a voluntary union recognition agreement with USDAW for Ocado's hourly paid employees at all our current operational sites. USDAW representatives will participate on our existing Ocado Council to voice the views of the employees they represent. The Ocado Council continues to be the forum that we use to consult with our employees.

### Current trading and outlook

Against the backdrop of the weak UK economy, we have continued to see growth in the online grocery retail market. We believe this is evidence of a structural shift in consumer behaviour and we will see continued expansion of the market. Ocado is well positioned to capture this growth as the market-leading offer in online grocery shopping.

Ocado achieved gross sales growth of 16.6% in 2011, during a period of capacity constraints at CFC1. Our growth has continued into 2012; sales growth in the first quarter was 10.9%, similar to Q4 2011. Given the sales growth profile we experienced in 2011 as a result of capacity constraints, we expect our growth rate to improve as the year progresses.

In 2012 we will continue to pursue our existing strategy to improve what we offer our customers, to complete the capacity expansion work at CFC1 and to continue the build, commissioning and testing of CFC2. We will focus on improving the levels of service, beyond that which we gave our customers in the second half of 2011.

It is our mission to make sure that customers continue to regard Ocado as the market-leading offer in online grocery shopping. We will continue to provide for and capture the growth of this market sector. The operational leverage we have in our business positions us strongly to benefit from increased scale to achieve a level of profitability that satisfies all stakeholders in the business.

**Tim Steiner**  
Chief Executive Officer



Chief Executive Officer's review

OUR PERFORMANCE

ABOUT OCADO

OUR RESPONSIBILITIES

OUR FINANCIALS