

HOW WE MANAGE OUR RISKS

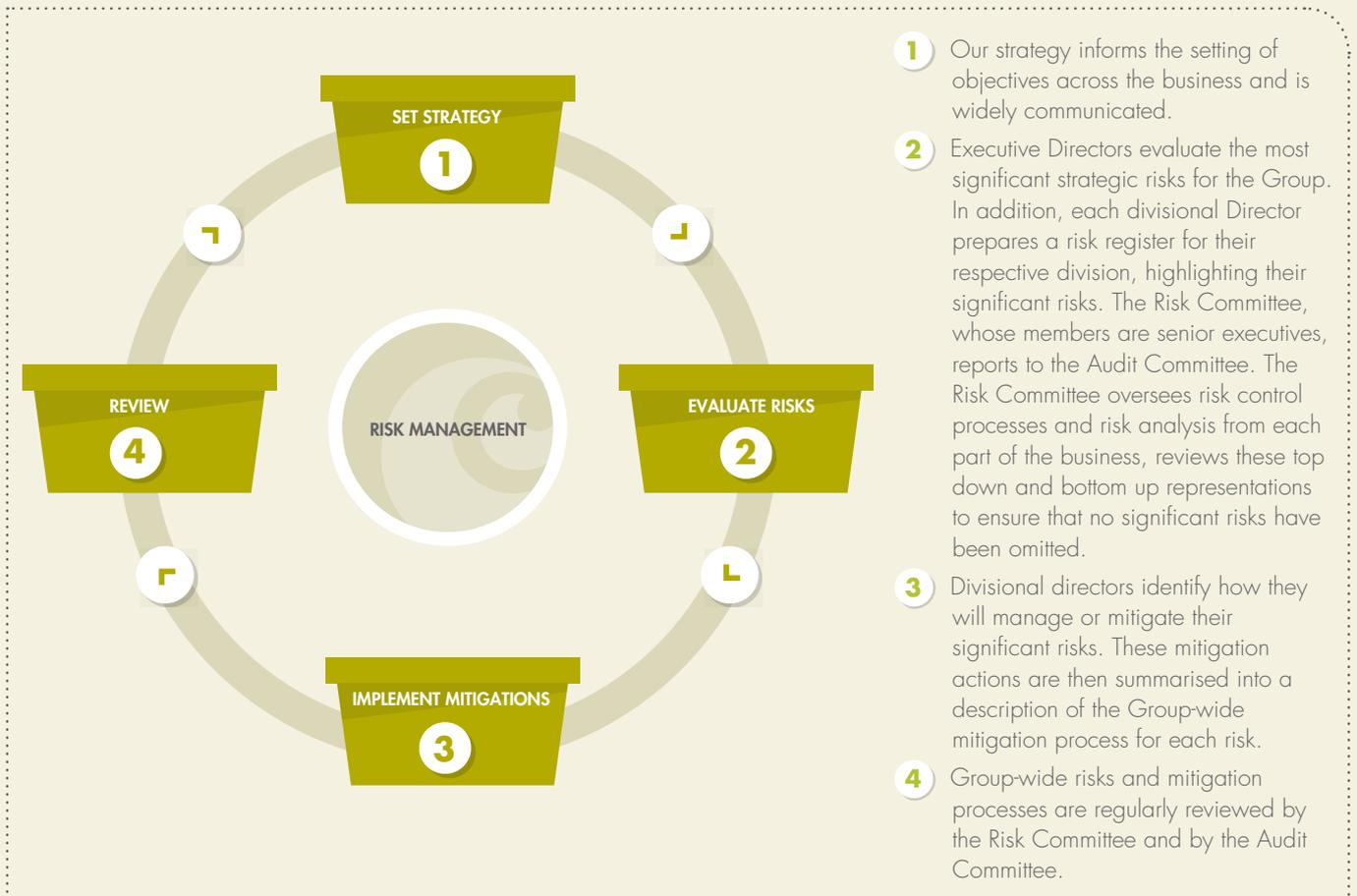
THE RISK MANAGEMENT FRAMEWORK

Ocado's risk management process is designed to improve the likelihood of delivering our business objectives, to protect the interests of our key stakeholders, to enhance the quality of our decision making, and to assist in the safeguarding of our assets, including people, finances, property and reputation.

The Board is responsible for the identification of Ocado's key strategic and emerging risks, and for the review and approval of the risk management framework. The Audit Committee, delegated by the Board, is responsible for the independent review of the effectiveness of risk management, the system of internal control, and the monitoring of the quality of financial statements and consideration of any findings reported by the auditors, PricewaterhouseCoopers ("PwC"), in relation to Ocado's control environment and its financial reporting procedures.

The key features of our system of internal control and risk management, including those relating to the financial reporting process, are:

- an organisational structure with clear segregation of duties, control and authority, and a framework of policies covering all key areas;
- a system of financial reporting, business planning and forecasting processes;
- a capital approval policy that controls Ocado's capital expenditure and a post-completion review process for significant projects;
- monitoring the progress of major projects by management, the Executive Directors and by the Board;
- a Risk Committee which monitors Ocado's risk control processes;
- an Information Security Committee which monitors Ocado's information security;
- an Internal Audit & Risk function that provides independent assurance on key programmes and controls;
- a treasury policy overseen by the Treasury Committee that manages Ocado's cash and deposits, investments, foreign exchange and interest rates, so as to ensure liquidity and minimise financial risk;
- a food and product technology department, responsible for designing and monitoring compliance with Ocado's processes for the procurement and handling of foods and other goods for resale;
- other control measures outlined elsewhere in this Annual Report including legal and regulatory compliance and health and safety.



WHAT WE ADDRESSED IN 2014

The process described on page 32 for identifying, evaluating and managing the principal risks faced by the Group operated during the period and up to the date of this Annual Report. Such a system can only provide reasonable, and not absolute, assurance, as it is designed to manage rather than eliminate the risk of failure to achieve business objectives.

Following a review by KPMG LLP of the effectiveness of the Group's governance framework against market practice for listed companies, management is in the process of implementing the key recommendations. These included enhancing our risk management capability through establishing an Internal Audit & Risk function in July 2014 and consolidating in a common area and format the existing and revised key policies and procedures.

The Audit Committee, on behalf of the Board, undertook an annual review of the effectiveness of risk management and the system of internal control, covering all material controls including financial, operational, compliance controls, and risk management systems.

For further information on the review of financial reporting refer to page 75 of the Audit Committee report. For a description of the Company's externally facilitated control and governance review see page 78 of the Audit Committee report.

WHAT WE WILL BE LOOKING AT IN 2015

Activities to improve our strategic, programme and operational risk management capabilities, including business continuity and information security, will continue in 2015. Our trading strategy is reviewed and amended as necessary to reflect the increasingly competitive grocery trading environment.

2015 will also see us begin to integrate our environmental, social and governance (ESG) risks across the business. Our long-term aim is for integrated reporting, and we see the greater integration of ESG risks throughout the business, along with transparent stakeholder dialogue, as key drivers of this.

The new Internal Audit & Risk function will provide independent and objective assurance and advisory services designed to add value and improve the operations of the business. Its scope will encompass, but not be limited to, the examination and evaluation of the adequacy and effectiveness of Ocado's governance, risk management and internal control processes.



HOW WE MANAGE OUR RISKS continued

RISKS

We have identified 12 principal risks and uncertainties facing Ocado. These are considered by the Board to be material to the development, performance, position or future prospects of Ocado. These risks, mitigations and changes during the year are summarised in the table below. They are not set out in priority order.

Objective	Risks	Mitigation Action/Control	Change During The Year
 DRIVING GROWTH	Failure to maintain competitive pricing position	<ul style="list-style-type: none"> Continuation of our LPP basket matching price comparison Maintaining a competitive number of promotional offers and increased availability of free delivery slots for price sensitive customers Creation of a choice of tiered price points within each category 	 Due to increased competition in the market
	A risk of decline in high service levels	<ul style="list-style-type: none"> Weekly monitoring of the key indicators and the underlying drivers against published targets Installation of additional capacity to reduce the pressure on the business and resiliency work in CFC1 	 Successful increase in operations of CFC2 means that both CFCs are operating with sufficient capacity headroom
	Failure to maintain a compelling product range	<ul style="list-style-type: none"> Growth of the Ocado own label range alongside continued provision of the Waitrose range Growth of branded ranges and expansion of supplier base Alternative sourcing scenarios planned in the event that the Waitrose sourcing relationship terminates 	 Range and supply base have increased during the year
	Failure to continue to recruit increasing numbers of new customers and retain existing customers	<ul style="list-style-type: none"> Continuation of investment and optimisation of the marketing channels to acquire new customers 	 Active customers grew and retention rates improved during the year
 MAXIMISING EFFICIENCY	A risk of delays in the implementation of new capacity for both Ocado and Morrisons	<ul style="list-style-type: none"> Dedication of resources to the modularisation of technology and logistics systems to enable faster replication Preparation of plans for new capacity at CFC3 and CFC4 	 Future new capacity is reliant on new, unproven, technology
 UTILISING KNOWLEDGE	Failure to develop a competitive model for further commercialisation	<ul style="list-style-type: none"> Engagement with a wide number of international grocers to understand market needs Experienced teams in place who understand the current solutions and are aware of global alternatives used in other industries 	 Significant progress in developing the commercial offer but higher risks remain until first OSP deal is signed

Objective	Risks	Mitigation Action/Control	Change During The Year
 MONETISING PROPRIETARY KNOWLEDGE	Failure to protect current technology and process and failure to ensure that our technology can be freely operated without infringing a third party's IP	<ul style="list-style-type: none"> Processes are operating to identify patentable inventions and to apply for patents Conducting extensive "freedom to operate" searches on selected technologies 	 Multiple patents now filed but the value of IP has increased so increasing the value to others
OPERATIONAL	A risk of a food or product safety incident	<ul style="list-style-type: none"> Experienced legal, food technology and health and safety professionals monitor compliance against policies and procedures Supplier approval and certification process Health and safety policies with appropriate operational procedures 	 Supplier and product numbers have increased and the market has become more sensitive to product issues
	A risk of changes in regulations impacting our business operations	<ul style="list-style-type: none"> Regular monitoring of regulatory developments to ensure that changes are identified Monitoring operational performance to minimise environmental impact 	
	Failure of technology or data loss	<ul style="list-style-type: none"> IT systems are structured to operate reliably and securely Denial of service protection service is in place The security of our IT systems is regularly tested by third parties No customer payment card data is held on Ocado's databases Access to customer personal data is restricted to those who need this information as part of their job 	
	Business interruption	<ul style="list-style-type: none"> Dedicated engineering teams on site with daily maintenance programmes to support the continued operation of equipment Insurers advise on engineering and risk management in the design and operation of the CFCs High level of protection for CFCs and equipment 	 Opening of more spokes reduces reliance on any one particular spoke
	A risk of unintentional infringement of competition legislation	<ul style="list-style-type: none"> Issued a revised competition compliance policy in 2014 Conducted training of key personnel and deployed an e-learning tool for all personnel in every department having access to trading data Physical and technical firewalls installed to separate those teams who need to deal with sensitive Morrisons' data, in order to provide the services to Morrisons, from those running the Ocado offer 	

The risk that future efficiency improvements may be limited, previously reported in last year's annual report, is no longer considered to be a principal risk because Ocado has reached a level of efficiency sufficient to ensure the viability of the business.

For further information on the financial risks see page 172 of the notes to the financial statements.