

## Principal risks and uncertainties

We discuss below the principal risks and uncertainties that could impact the Group's performance and our mitigating activities. For further information on how we manage risk, see the business review and also pages 67 and 68 of the corporate governance statement.

| Area of principal risk/uncertainty  | Description and examples of mitigating activity  |
|---|--|
| <p><i>Economic and market risks</i></p> <p>Delivery of sales growth and profit impacted by:</p> <ul style="list-style-type: none"> <li>■ Economic conditions</li> <li>■ Cost of raw material/services/utilities</li> <li>■ Consumer preferences</li> <li>■ Competitor activity</li> <li>■ Seasonality/weather</li> <li>■ UK-centric store network</li> <li>■ Expansion/development of store network</li> <li>■ Changing demographics</li> </ul> | <p>The economic environment, including the activities of other retailers, impacts on the Group's success in terms of sales, gross margin and cost management. Increasing costs within the utilities sector and general inflation have led to a reduction in household disposable incomes which, together with concerns regarding the 'credit crunch', may impact the retail sector disproportionately.</p> <p>The Group is committed to maintaining competitive pricing positions in its markets. We have established initiatives to support our ability to manage margin levels effectively through sourcing developments as well as rigorous cost control.</p> <p>The Argos brand is synonymous with choice, value and convenience and internal processes ensure that Argos is well positioned to continue to deliver value to its customers. In addition to its core home enhancement proposition available in-store and online, Homebase offers a selection of eco-products that will be further enhanced through its involvement in the 21st Century Living research programme with the Eden Project.</p> <p>The Group continues to consider new development opportunities outside the UK, such as the current trial of Argos in India.</p> <p>Other mitigating activities include:</p> <ul style="list-style-type: none"> <li>■ Clear communication of choice and value-led product offering to customers</li> <li>■ Driving market share in high headroom product categories</li> <li>■ Continued evolution of a broader home enhancement position at Homebase</li> </ul> |
| <p><i>Operations</i></p> <p>Failure to ensure appropriate processes are in place to manage the complexity of retail operations, including sourcing of products and customer service</p>   | <p>Like other retailers, the Group sources products from overseas, which increases the time between ordering and receiving products from suppliers. Efficient management processes are therefore needed to ensure stock is in the right place at the right time. We have recently evaluated our distribution infrastructure to drive further efficiency.</p> <p>The success of the Argos multi-channel model has heightened expectations among our customers. We strive to continually improve the service to manage this, whilst also extending the capability into Homebase.</p> <p>Communication with our customers is very important to us and we continually seek to balance shareholder value with customer value through promotional campaigns, particularly at key events such as Christmas, Easter, Valentine's and bank holidays.</p> <p>Other mitigating activities include:</p> <ul style="list-style-type: none"> <li>■ Improving the accuracy of stock level forecasts</li> <li>■ Realigning our distribution infrastructure</li> <li>■ Enhancing website capabilities</li> <li>■ Improving clarity of promotional campaigns</li> <li>■ Continuously improving catalogue production processes</li> <li>■ New store formats and technologies such as Check &amp; Reserve and Quick Pay Kiosks</li> <li>■ Focused and relevant customer service training in Argos and Homebase</li> </ul>  |

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|---|--|
| <p><b>Business interruption</b></p> <ul style="list-style-type: none"> <li>▪ Acts of terrorism</li> <li>▪ Failure or unavailability of operational and/or IT infrastructure</li> <li>▪ Delay or interruption in services provided by third-party suppliers</li> </ul> | <p>A major incident could impact the ability of the Group to continue trading. We maintain and routinely test our business continuity plans in order to reduce the potential impact of such events. Security measures are in place at all sites to protect colleagues, customers and assets.</p> <p>Other mitigating activities include:</p> <ul style="list-style-type: none"> <li>▪ Business continuity and recovery planning</li> <li>▪ IT recovery plans</li> <li>▪ Third-party supplier management</li> </ul>   |
| <p><b>Infrastructure development/projects</b></p> <p>Delay or failure to manage and implement major business and infrastructure projects effectively</p>  | <p>The Group is committed to investing in the long-term capability of systems and infrastructure. A major IT systems replacement is reaching completion and other developments are planned. Projects of this nature carry a degree of risk; however, we have dedicated project teams in place with strong governance frameworks to manage them.</p> <p>Other mitigating activities include:</p> <ul style="list-style-type: none"> <li>▪ Detailed approval and planning process prior to project commencement</li> <li>▪ Project management</li> <li>▪ Board review of status/progress of major change programmes</li> <li>▪ Post-project implementation reviews</li> <li>▪ Management experience of significant infrastructure/change programmes</li> </ul> |
| <p><b>Product safety</b></p> <p>Failure to manage supplier relationships and/or ensure appropriate product quality checks are in place</p>  | <p>The safety and quality of our products is of high importance to the Group. Various specific concerns have been raised in the industry during 2007 with regards to imported products and we have taken measures to further increase our controls in this area. Wherever possible Argos and Homebase teams work in conjunction with suppliers to ensure consistent understanding of quality expectations.</p> <p>Other mitigating activities include:</p> <ul style="list-style-type: none"> <li>▪ Quality assurance programme</li> <li>▪ Supplier relationship protocols</li> <li>▪ Terms and conditions for all suppliers</li> </ul>  |
| <p><b>People</b></p> <p>Reliance on key personnel</p>   | <p>The Group values its colleagues and their contribution to the success of the organisation. Internal training schemes and the graduate recruitment programme maintain the succession pool. We actively encourage promotion from within and monitor employee satisfaction.</p> <p>Other mitigating activities include:</p> <ul style="list-style-type: none"> <li>▪ Competitive remuneration packages</li> <li>▪ Succession planning</li> <li>▪ Management development and training programmes</li> <li>▪ Staff surveys</li> </ul>  |
| <p><b>Regulatory environment</b></p> <ul style="list-style-type: none"> <li>▪ Changes in UK and overseas legislation and regulation, eg consumer protection, environmental regulation</li> <li>▪ Changes in UK fiscal/employment policy, eg minimum wage</li> </ul>   | <p>The Group is committed to good governance practices. In addition to ensuring compliance with our existing requirements, we are active in monitoring developments and lobbying together with other retailers to support and develop the industry and the interests of consumers.</p> <p>Other mitigating activities include:</p> <ul style="list-style-type: none"> <li>▪ Membership of industry representative groups</li> <li>▪ Direct engagement with government and regulators</li> <li>▪ Dedicated working parties to manage operational change</li> </ul>  |
| <p><b>Currency</b></p> <p>Purchase of products in currencies other than sterling, principally the US dollar and the euro</p>  | <p>The Group is exposed to fluctuations in currency rates in its overseas product purchasing. We mitigate these risks through effective forecasting of requirements and appropriate hedging policies.</p> <p>Other mitigating activities include:</p> <ul style="list-style-type: none"> <li>▪ Forecast currency requirements</li> <li>▪ Hedging policies</li> </ul>   |