

A large red circle is positioned in the upper left quadrant of the page. It contains the text 'AR: Review 2010' in white, bold, serif font.

**AR:  
Review  
2010**

A new  
framework for  
best practice  
annual report  
information  
design.

Truly Deeply  
Brand Strategy & Design



# The 'R' Word; how do you identify and manage business risk?

**This year, more than in previous years, the demonstrated ability of an organisation to identify risk in advance, and set strategies to chart their way through will play an important role in their shareholder communication.**

In this year's annual reports, organisations need to ensure they highlight principal risks and uncertainties facing their businesses, along with their risk management strategies. We would expect to see this information play a more up-front role in reporting, with complex legalese and technical language giving way to clear, transparent information on mitigation programs. In the UK we have seen a move in risk management reporting towards tables listing principal risks next to potential impact and mitigation.

## **Best Practice Principles**

- Is there a clear and simple to understand summary of the key challenges and major risks the organisation faces today and into the future?
- Does the organisation demonstrate a sound system of risk identification and management and internal compliance and control? Is there an explanation of priorities behind risk management?
- Does the report discuss the business risk and profit sensitivity to competition, the business environment, market share, export performance, product price, change to government and regulatory policy both in local and foreign markets, interest rates and foreign exchange?
- Is there an assessment of the potential impact of identified risks on the business value?

*'Have policies on risk been established including identifying material business risks and their treatment?' Criteria statement: Australasian Reporting Awards.*

*'The OFR should provide information to assist members on... the resources, principal risks and uncertainties and relationships that may affect the entity's long-term value.' Reporting statement: Operating and Financial Review. Accounting Standards Board (UK).*

**Principal Risks and Uncertainties**

An assessment of the principal risks and uncertainties facing the Group is set out in this report. The Group has a business risk and strategic risk matrix, applying to the Board, the executive management and the key staff. The Board, the executive management and the key staff are responsible for the Group and they are not subject to the day-to-day running of the business.

Risk Area	Principal Risk	Potential Impact
Operational risks	Operational resilience	Operational resilience is a key element of the Group's ability to continue to provide services to its customers. The Group has a business continuity plan in place to ensure that the Group can continue to provide services to its customers in the event of a major disruption.
	IT systems	The Group's IT systems are critical to its operations. The Group has a robust IT security and data protection policy in place to ensure that the Group's IT systems are secure and that the Group's data is protected.
	Human resources	The Group's human resources are a key element of its success. The Group has a robust human resources policy in place to ensure that the Group can attract, retain and develop the best talent.
Financial risks	Revenue	The Group's revenue is a key element of its success. The Group has a robust revenue policy in place to ensure that the Group can generate sufficient revenue to meet its obligations.
	Costs	The Group's costs are a key element of its success. The Group has a robust cost policy in place to ensure that the Group can manage its costs effectively.
	Debt	The Group's debt is a key element of its success. The Group has a robust debt policy in place to ensure that the Group can manage its debt effectively.
	Equity	The Group's equity is a key element of its success. The Group has a robust equity policy in place to ensure that the Group can manage its equity effectively.

the Board, that continuously assesses and monitors the key risks and how we seek to mitigate them in the day-to-day running

RISK AREA	POTENTIAL IMPACT
Competitive environment	Loss of market share and erosion in margins from increased competition.
Brand perception	Reduction in customer loyalty and higher churn in our fixed line operations as a result of poor customer service.
Capacity and functionality of our IT and telecoms infrastructure	Failure to provide adequate service levels to customers or to manage back office processes.
Retention of key	Lack of necessary expertise or continuity to execute strategy.

The Carphone Warehouse Group PLC Annual Report 2007

**Our risks and how we manage them**

The table below shows the principal risks and uncertainties facing the Group. The risks are ranked in order of their potential impact on the Group's performance. The risks are ranked in order of their potential impact on the Group's performance.

Risk description	Impact	Mitigation
<b>Operational resilience</b>	Operational resilience is a key element of the Group's ability to continue to provide services to its customers. The Group has a business continuity plan in place to ensure that the Group can continue to provide services to its customers in the event of a major disruption.	Operational resilience is a key element of the Group's ability to continue to provide services to its customers. The Group has a business continuity plan in place to ensure that the Group can continue to provide services to its customers in the event of a major disruption.
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them

UK Government is our largest single customer

Mitigation

- Committed development exposure limited to remaining space in One Nine Change (due to complete in 2010) and Dashwood House (due to complete in Q4 2009). 20 Fenchurch Street is not committed yet and will only start when market conditions are favourable or a prelet of part is in place.
- Pre-letting of key units before committing to development. Sales programme has already diversified schemes and locations most likely to suffer adverse impact.
- Good quality covenants
- Secure income flows under UK lease structure
- Annual investment appraisals
- Large multi-asset portfolio
- Largest property represents only 5.5% of combined portfolio
- Average investment property size of £71.5m
- British assets combine a range of diversified income streams

Land Securities Annual Report 2008

**Risk management**

The Group's risk management framework is designed to identify, assess and mitigate the risks and uncertainties facing the Group. The Group has a robust risk management policy in place to ensure that the Group can manage its risks effectively.

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**Risk management**

In any business, there are a number of risks and uncertainties which could have an impact on its long-term performance. The Group has an extensive risk management structure in place which is designed to identify, manage and mitigate business risk. The Group recognises that the risks and uncertainties facing its businesses are constantly changing and it therefore monitors resources.

Risk assessment is an essential part of the Group's internal control structures. The Group's risk management framework is designed to identify, assess and mitigate the risks and uncertainties facing the Group. The Group has a robust risk management policy in place to ensure that the Group can manage its risks effectively.

**Risk**

**Market conditions**

Wolseley's products are distributed to a wide range of customers in connection with commercial, industrial and residential construction projects and the Group's results are consequently dependent on the levels of activity in its markets. The level of activity varies by market depending on many factors including general economic conditions, the availability of credit to customers, investment, mortgage and other interest rates, unemployment, demographic trends, weather, the price of consumer confidence.

Wolseley Annual Report 2008

If you would like to know more about our methodology for transforming good annual reports to great shareholder communications and how it may be applied to your report, call our client services director Malcolm on (03) 9693 0000.