

Risks and uncertainties

Like all businesses, our business faces risks and uncertainties that could impact on the Group's achievement of its objectives. Risk is accepted as being a part of doing business and within the Group, responsibility for risk management and internal control lies with the Board. Through the application of reasoned judgement and consideration of the likelihood and consequence of events, the Board believes a successful risk management framework balances risk and reward.

The list below sets out the most significant risks to the achievement of the Group's business goals. The list does not include all risks that the Group faces and it does not list the risks in any order of priority.

Business strategy

In the long term, effectively managing the strategic risks that the Group faces will deliver benefits to all our stakeholders. The Board understands that if the strategy and vision are not properly formulated or communicated then the business may suffer. The strategy is developed by the Chief Executive and senior executives and is considered and approved by the Board, which takes time each year to review and monitor its delivery.

To ensure that our strategy is communicated and understood, the Group engages with a wide range of stakeholders including shareholders, employees, suppliers and other groups. This continual process helps to ensure that the strategy remains relevant and improves the likelihood of success.

The Board is conscious of the difficult economic environment in which it operates, with rising unemployment, reduced spending power and high levels of anxiety amongst customers. The Group's operating plans have been developed with this backdrop in mind, ensuring that there is a strong emphasis on value in our product offering and a focus on cost control in the business.

Financial and treasury

The Group's financial results may be subject to volatility arising from movements in commodity prices, foreign currencies, interest rates and the availability of sources of funding. See note 18 on page 64.

Product quality and safety

We recognise that the quality and safety of our products is of critical importance to us and that any failure in this regard would affect the confidence of our customers in us. We work with our suppliers to ensure the integrity of the products supplied. Also, as a manufacturer of food products, we maintain strict standards and monitoring processes to manage

the risks associated with food safety throughout our Group and its supply chain. Food hygiene practices are taken very seriously throughout our Group, and are monitored both through internal audit procedures and external bodies such as environmental health departments. We have well prepared procedures for crisis management in order to act quickly when required.

We are aware that if we fail or are perceived to have failed to deliver, to our customers' satisfaction, the expected standards of quality and safety in our products this has the potential to impact on their loyalty to us. This in turn could adversely impact on our market share and our financial results.

Regulation

The Group operates in an environment governed by strict regulations to ensure the safety and protection of customers, shareholders, staff and other stakeholders and the operation of an open and competitive market. These regulations include food hygiene, health and safety, the handling of hazardous materials, data protection, the rules of the stock exchange and competition law. In all cases, the Board takes its responsibilities very seriously, and recognises that any breach of regulation could cause reputational and financial damage to the Group. There is clear, ultimate accountability with Directors for compliance with all areas of regulation.

The grocery sector continues to be under close focus from the Office of Fair Trading (OFT) despite the Competition Commission's findings that the sector is highly competitive. The OFT has issued 'Statements of Objection' in relation to conduct in the milk and tobacco categories in the early part of the millennium. We always fully co-operate with such enquiries. In the case of milk, we believe strongly that Morrisons has no case to answer and have made representations in detail to this effect. In the case of tobacco, there is a complex legal question as to whether well established industry practices represented a breach of competition law. It is likely that this can only be settled through a formal judicial process.

Corporate Social Responsibility

In line with our commercial objectives we have identified three areas, Environment, Society and Business where by 'doing the right thing', we protect valuable resources, meet demand for sustainable products and make our business more efficient. Morrisons is committed to taking good care of our environment and if we fail to meet our commitments this could damage our reputation and possibly lose the trust of our stakeholders.

Therefore, reporting to the Board is a cross functional steering group of senior executives that ensures that the appropriate management, evaluation and verification systems are integrated into operational management activities. Delivery against targets and key performance indicators is regularly monitored and reported. Further information is available in our Corporate Social Responsibility summary on page 24.

Business interruption

Our distribution and systems infrastructures are fundamental to ensuring the normal continuity of trading in our stores. If a major incident occurred to this infrastructure or another key facility this would have a detrimental impact on the business' ability to operate effectively. To reduce the chances of this happening and also to reduce the impact of such an event if it were to happen, we have developed recovery plans and invested in the creation of a remote IT disaster recovery site.

The current challenging economic environment increases the risk that one of our key suppliers is adversely impacted by the recession and is unable to supply our stores. We mitigate the potential impact of this on our business by seeking several sources of supply for products wherever possible.

Property

The business is growing the size of its retail space through acquisition and by modernising and extending existing stores and facilities. In this context there is a possibility that the business fails to deliver an acceptable return on this investment or that there is damage to the business' reputation if this is not done in a safe and timely manner. The business mitigates against these risks through:

- a property strategy that develops stores to a well proven format;
- the application of a formal capital approval process; and
- long-standing relationships and agreements with contractors with a track record of achieving the required quality, safety and cost standards.

Systems and infrastructure

The Board has identified that many of the Group's existing systems are approaching the end of their useful lives and that a comprehensive programme of replacement is required. The Board is aware of the risks faced by any organisation seeking to successfully implement new systems, and has established a programme and assurance structure to manage these. Our business, like other similar businesses, has a capacity

to absorb a level of change without this having a detrimental impact on continuing business operations. The change programmes within the Group have been designed with this capacity in mind, and are structured and governed in a manner that allows the Board to monitor their impact. Most of the Group's systems projects are in the design and development phases, with implementation activities starting more significantly in 2010.

Employee engagement and retention

The continued success of the Group relies heavily on the investment in the training and development of our 124,000 employees. The Group's employment policies, remuneration and benefits packages are designed to be competitive, as well as providing colleagues with fulfilling career opportunities. The Group continually engages with colleagues across the business to ensure that we keep strengthening our team at every level.