

Corporate governance

Combined Code

On 23 July 2003, the Financial Reporting Council agreed the final text of a Revised Combined Code on Corporate Governance ('the Code'). This supersedes and replaces the Combined Code issued following the report of the Hampel Committee on Corporate Governance in July 1998. It derives from a review of the role and effectiveness of non-executive directors by Sir Derek Higgs and a review of audit committees by a group led by Sir Robert Smith.

Although the new Code will apply for reporting years beginning on or after 1 November 2003, the Board of GUS has already carried out a full review of its requirements and it now reports to shareholders on the progress made in complying with its provisions.

It should first be explained that the Code now contains main principles, supporting principles and provisions. The existing Listing Rules require listed companies to make a disclosure statement in two parts in relation to the Combined Code. In the first part of the statement, the Company has to report on how it applies the principles in the Combined Code. As the Revised Code adds supporting principles, this statement now needs to cover both main and supporting principles. In the second part of the statement, the Company has either to confirm that it complies with the Code's provisions or, where it does not, to provide an explanation. It is then for shareholders and others to evaluate the Company's statement and any explanations.

The Board of GUS supports the principles of Corporate Governance advocated by the Code and, as reported last year, it has established a Corporate Governance Committee, with written terms of reference covering the authority delegated by the Board. These include keeping under review all legislative, regulatory and corporate governance developments that might affect the Company's operations and making recommendations to the Board in relation thereto, striving to ensure that the Company is at the forefront of best practice.

The members of the Corporate Governance Committee are Sir Victor Blank, John Peace, Sir Alan Rudge and David Morris, the Company Secretary. The Committee met on three occasions during the year under review. The four members of the Committee attended all three meetings.

Save as reported below, the Board is able to confirm its full compliance with the Code's provisions.

The Board

The Board consists of a Chairman, a Chief Executive plus four executive directors and six non-executive directors, one of whom, Sir Alan Rudge is the senior independent director. The directors are identified on pages 30 to 31 of this report.

The six non-executive directors are determined by the Board to be independent in character and judgement and there are no relationships or circumstances which could affect, or appear to affect, a director's judgement. It should be noted, though, that the revised Code has introduced measures against which independence is to be judged and, in the light of one of these, Lord Harris would be deemed not to be independent because he has served on the Board, as a non-executive director, for more than nine years. This was previously recognised by the Company in Lord Harris standing down as a member of the Remuneration Committee and the Board deciding that, in future, he should be subject to annual re-election by shareholders. Lord Harris will be retiring from the Board at this year's Annual General Meeting.

The non-executive directors are appointed for specified terms, the details of their respective appointments being as set out in the Report on Directors' Remuneration and Related Matters on page 49.

The Chairman and the non-executive directors meet, at least annually, as a group without the executive directors present. At the conclusion of such meetings, the Chairman withdraws so that, under the leadership of the senior independent director, the non-executive directors have the opportunity to discuss any appropriate issues and, at least annually, appraise the Chairman's performance, taking account of any views expressed by executive directors. The Board is satisfied that the Chairman's other board appointments and commitments do not place constraints on his ability properly to fulfil his role as Chairman of GUS. The Chairman is also Chairman of Trinity Mirror plc and has a number of pro bono appointments (see page 30). The Chairman's principal office is in the GUS registered office at One Stanhope Gate and he is always available as needed to carry out his responsibilities to GUS.

The Board has six scheduled meetings each year and meets more frequently as required. It met on nine occasions during the year under review, including the Spring 2004 meeting which actually fell on 1 April.

Six directors had 100 per cent attendance records at the six scheduled meetings. Sir Victor Blank attended five of those meetings, Craig Smith and Oliver Stocken four and Lord Harris three. In the case of Alan Smart, the CEO of the Company's South African subsidiary, Lewis Stores, decisions on whether or not he should attend are taken in the light of the demands of the business and specific issues arising on the Board agenda. Given the demands of the preparatory work needed for the Initial Public Offering of shares in Lewis Stores, it was agreed that Mr Smart's travel should be restricted and, consequently, he attended one of the six scheduled meetings. Andy Hornby, who joined the Board on 21 January 2004, attended one of the two scheduled meetings post his appointment. Mr Hornby is an executive director of HBOS and there will be a period of time needed to avoid conflicting dates in his diary.

Additional meetings are required from time to time which may or may not demand attendance by all directors, depending on the nature of the business to be discussed. Three additional meetings were required during the year under review formally to conclude matters previously considered by the Board and, accordingly, full attendance was not required. John Peace and David Tyler were present at all three meetings and Sir Victor Blank and Craig Smith at two. Terry Duddy, Andy Hornby and Alan Smart attended one such meeting.

It is inevitable that there will be occasions when circumstances arise to prevent directors from attending meetings. In such circumstances, the usual practice is for the absent director to review the Board papers with the Chairman and convey any thoughts or feelings on specific issues. It should also be noted that the time commitment expected of non-executive directors is not restricted to Board meetings. All independent non-executive directors are members of the Audit, Remuneration and Nomination Committees. Time is spent visiting the Group's businesses and attending Company conferences. In addition, they are always available for consultation on specific issues falling within their particular fields of expertise.

For regular Board meetings, the agenda usually comprises reports from the Group Chief Executive, supported by reports from the chief executive of each operating division and the Group Finance Director. The January Board meeting focuses on an annual strategy review, the March/April meeting deals with the final sign off of operating budgets for the approaching financial year, while the May and November meetings cover the approval of preliminary and interim financial statements respectively. Members of senior divisional management below Parent Board level are often invited to make presentations to the Board and participate in certain aspects of the annual strategy review. The practice is to have the agenda and supporting papers in directors' hands five clear days ahead of each meeting.

The duties of the Board and its committees are set out clearly in formal terms of reference which are reviewed regularly and state the items specifically reserved for decision by the Board. The Board establishes overall Group strategy, including new activities and withdrawal from existing activities. It approves the Group's commercial strategy and the operating budget and monitors divisional performance through the receipt of monthly reports and management accounts. The approval of acquisitions, for the most part, is a matter reserved for the Board save that it delegates to the Group Chief Executive the responsibility for such activities to a specified level of authority. Similarly, there are authority levels covering capital expenditure which can be exercised by the Group Chief Executive or by the Chairman and Group Chief Executive jointly. Beyond these levels of authority, projects are referred to the Board for approval.

Other matters reserved to the Board include:

- Treasury
- Control, audit and risk management
- Remuneration
 - the Company's framework of executive remuneration and its cost in the light of recommendations made by the Remuneration Committee
 - the remuneration of non-executive directors
- Pension Schemes
- Corporate Social Responsibility
- The appointment or removal of the Company Secretary

The Company maintains appropriate insurance cover in respect of legal action against its directors.

The division of responsibilities between the Chairman and the Group Chief Executive is clearly established, set out in writing and agreed by the Board. The Chairman and the Company Secretary work closely together in planning a forward programme of Board meetings and establishing their agendas. As part of this process, the Chairman ensures that the Board is supplied in a timely manner with information in a form and of a quality to enable it to discharge its duties. This is not restricted to papers prepared for Board meetings. Directors receive monthly management accounts irrespective of whether or not a Board meeting is programmed for that month. Arrangements are made for non-executive directors to visit the Company's subsidiaries to see their operations at first hand and have the opportunity to discuss these with local management.

There is in place a procedure under which the directors, in furtherance of their duties, are able to take professional advice, if necessary at the Company's expense. The Company Secretary is responsible for ensuring that Board procedures are followed and all directors have access to his advice and services.

The Board regularly reviews the chairmanship of its committees. In order to ensure that undue reliance is not placed on particular individuals, the Board has decided that all its independent non-executive directors should serve on its Audit and Remuneration Committees. Accordingly, it sees as impracticable the suggestion made by some that a director should not be a member of the same Board committee for more than six years.

Lord Harris has been a director since 1986 and, because of his perceived lack of independence, he does not serve on these committees. Lady Patten and Sir Alan Rudge were appointed to the Board in 1997, Oliver Stocken in 2000 and Frank Newman in 2001. Recommendations to shareholders for the re-election of non-executive directors for terms beyond six years will be made only after deliberate review by the Board.

At present, there are eleven directors on the Board, excluding the Chairman, five of whom are executive directors and six of whom are non-executive directors determined by the Board to be independent. As indicated earlier, Lord Harris will be retiring from the Board at this year's Annual General Meeting. At that point, the Board will consist of the Chairman, five executive directors and five non-executive directors, thereby satisfying the Combined Code requirement that at least half the Board, excluding the Chairman, should comprise non-executive directors determined by the Board to be independent.

The Board has established a Nomination Committee which leads the process for Board appointments and makes recommendations to the Board. The members of the Nomination Committee are Sir Victor Blank (Chairman), the six non-executive directors and John Peace. Membership of the Committee remained constant throughout the year under review save for the addition of Andy Hornby who joined the Committee on his appointment to the Board in January 2004. The Committee would be chaired by the Senior Independent Director on any matter concerning the chairmanship of the Company. The Company Secretary is the Secretary to the Committee.

The Nomination Committee has written terms of reference covering the authority delegated to it by the Board. These were reviewed and updated during the course of the year under review, more fully to reflect the principles and provisions of the revised Combined Code. These include the following duties:

- To regularly review the structure, size and composition (including the skills, knowledge and experience) required of the Board compared to its current position and make recommendations to the Board with regard to any changes.
- To give full consideration to succession planning for directors and other senior executives in the course of its work, taking into account the challenges and opportunities facing the Company and what skills are, therefore, needed on the Board in the future.
- To be responsible for identifying and nominating, for the approval of the Board, candidates to fill Board vacancies as and when they arise.
- Before making an appointment, the Committee will evaluate the balance of skills, knowledge and experience on the Board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment. In identifying suitable candidates, the Committee shall:
 - use open advertising or the services of external advisers to facilitate the search
 - consider candidates from a wide range of backgrounds; and
 - consider candidates on merit and against objective criteria, taking care that appointees have enough time available to devote to the position

The foregoing describes the process used in identifying Andy Hornby as a non-executive and leading to his appointment to the Board on 21 January 2004.

Corporate governance continued

The Nomination Committee's terms of reference are available on request and can be viewed on the Company's website at www.gusplc.com.

The Nomination Committee met on three occasions during the year under review. Sir Victor Blank, Lady Patten, John Peace and Sir Alan Rudge were present at all three meetings. Lord Harris, Frank Newman and Oliver Stocken were present on two occasions. Andy Hornby was unable to attend the one meeting that took place after his appointment to the Board on 21 January 2004.

The letters of appointment for non-executive directors, including the Chairman, were considered, during the course of the year under review, and have now been updated. These terms and conditions of appointment of non-executive directors are available for inspection by any person at the Company's registered office during normal business hours and at the Annual General Meeting (for 15 minutes prior to the meeting and during the meeting).

All directors receive induction on joining the Board under an approach that recognises that 'one size does not fit all'. For example, the needs of a widely experienced director from the UK will be very different to those of someone from another country joining a FTSE 100 company's Board for the first time. In the case of the latter, face to face induction programmes have been arranged through the use of a professional body but, for an experienced director an internal induction programme has been organised. The Board has also been considering how best to provide for the ongoing training and development needs of directors and will report further in due course.

The Company Secretary is responsible for advising the Board on all corporate governance matters, a responsibility he discharges in part through his membership of the Corporate Governance Committee referred to earlier.

It was explained, in last year's Annual Report, that a formal process covering Board evaluation had been introduced during the course of the current financial year. This process was carried out using the services of a third party adviser who conducted face to face interviews with each of the directors. A report was submitted by the adviser and, after initial consideration by the Nomination Committee, this was circulated to each director. The Board will refine this process further more fully to measure up to the requirements of the revised Code. As indicated elsewhere, the non-executive directors meet without the Chairman being present so that, inter alia, they may carry out an evaluation of his performance.

All directors are subject to re-election by shareholders at the first opportunity after their appointment and, thereafter, in accordance with Article 76.1 of the Company's Articles of Association. This ensures compliance with the Code by providing that all directors are required to submit themselves for re-election at least every three years.

As indicated earlier, the non-executive directors are appointed for specified terms. The non-executive director retiring by rotation this year is Sir Alan Rudge, the nominated Senior Independent Director. Sir Alan was appointed to the Board on 1 November 1997 and, accordingly, he has now completed two three year terms of office. The Board believes that Sir Alan Rudge should be re-elected for a further three year term and confirms that his performance continues to be effective and that he continues to demonstrate commitment to the role.

Remuneration

The Board has established a Remuneration Committee consisting exclusively of independent non-executive directors: Lady Patten (Chairman), Andy Hornby, Frank Newman, Sir Alan Rudge and Oliver Stocken. The application of corporate governance principles in relation to directors' remuneration is described in the Report on Directors' Remuneration and Related Matters on pages 41 to 50.

Accountability and Audit

It is a requirement of the Code that the Board should present a balanced and understandable assessment of the Company's position and prospects, a requirement that extends to interim and other price sensitive public reports and to reports to regulators as well as to information required to be presented by statutory requirements. In this context, reference should be made to the Statement of Directors' Responsibilities on page 40, which includes a statement in compliance with the Code regarding the Group's status as a going concern, and to the Report of the Auditors on page 53, which includes a statement by the auditors about their reporting responsibilities.

The Board acknowledges that it is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide reasonable, but not absolute, assurance against material mis-statement or loss. The Board has reviewed the effectiveness of the key procedures which have been established to provide internal control.

Following publication of guidance for directors on internal control (The Turnbull Guidance) the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. These include those relating to social, environmental and ethical matters. This process was in place throughout the year under review and up to the date of approval of the Annual Report. The process is regularly reviewed by the Audit Committee, which reports its findings for consideration by the Board, and is in accordance with the Turnbull Guidance.

The key procedures, which operated throughout the year, are as follows:

■ Risk assessment:

- The Group clearly sets out its objectives as part of its medium term planning process. These objectives are then incorporated as part of the budgeting and planning cycle and are supported by the use of both financial and non-financial key performance indicators.
- The operating divisions are required to make presentations on risk to the Audit Committee which reports regularly to the Group Board on the risks facing the businesses.
- The detailed assessment of strategic risks is delegated to the Group Chief Executive. This review is carried out as part of the annual budgeting and the monthly reporting and re-forecasting cycles.
- The Audit Committee has delegated responsibility for considering operational, financial and compliance risks on a regular basis and receives reports on the controls over these risks annually. This includes risks arising from social, environmental and ethical matters.

■ Control environment and control activities:

- The Group consists of a number of major trading divisions each with its own management and control structures.

- The Group has established procedures for delegated authority which ensure that decisions that are significant, either because of the value or the impact on other parts of the Group, are taken at an appropriate level.
- The Group has implemented appropriate strategies to deal with each significant risk that has been identified. These strategies include not only internal controls but other approaches such as insurance, joint ventures and specialised treasury instruments.
- The divisions operate within a framework of policies and procedures laid down in organisation and authority manuals, and personnel are required to comply with these procedures. Policies and procedures cover key issues such as authorisation levels, segregation of duties, compliance with legislation and physical and data security.

■ Information and communication:

- The Group has a comprehensive system of budgetary control including monthly performance reviews for each major business and division. These reviews are at a detailed level within the trading divisions and at a high level for the Group Board.
- On a monthly basis, the achievement of business objectives, both financial and non-financial, is assessed using a range of key performance indicators. These indicators are reviewed to ensure that they remain relevant and reliable.
- There are clear procedures throughout the Group for employees to report suspected improprieties.

■ Monitoring:

- A range of procedures is used to monitor the effective application of internal control in the Group including control self-assessment, management confirmation of compliance with standards and internal audit reviews.
- The internal audit department's responsibilities include reporting to the Audit Committee on the effectiveness of internal control systems focusing on those areas of greatest financial risk to the Group.
- Follow-up procedures ensure there is an appropriate response to changes in risks and controls.

The Board has established an Audit Committee consisting of five non-executive directors considered by the Board to be independent. They are Oliver Stocken (Chairman), Andy Hornby, Frank Newman, Lady Patten and Sir Alan Rudge. The Committee has at least one member possessing what the revised Code describes as recent and relevant experience. Oliver Stocken, a chartered accountant, was Group Finance Director of Barclays PLC between 1993 and 1999. Oliver Stocken joined the GUS Board on 1 April 2000 and was appointed a member of the Audit Committee with immediate effect. He succeeded Jonathan Charkham as Chairman of the Committee following the latter's retirement from the Board in July 2000. The other members of the Committee were so appointed on the date they were appointed to the Board. It will also be seen, from the directors' biographical details appearing on pages 30 and 31, that the other members of the Committee bring to it a wide range of experience from positions at the highest level both in the UK and the USA.

The main role and responsibilities of the Committee are set out in written terms of reference which encompass those set out in the revised Code; i.e.

- to monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance, reviewing significant financial judgements contained therein;
- to review the Company's internal financial controls and its internal controls and risk management systems;
- to monitor and review the effectiveness of the Company's internal audit function;
- to make recommendations to the Board, for it to put to shareholders for approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor and to approve the terms of engagement of the external auditor.
- to monitor and review the external auditors' independence and objectivity and the effectiveness of the audit process taking into consideration relevant UK professional and regulatory requirements.
- to develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non audit services by the external audit firm and to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.

The Committee shall also review the arrangements by which Company employees may, in confidence, raise concerns about possible wrongdoing in financial reporting or other matters (so called "whistleblowing" procedures). The Committee shall ensure that arrangements allow proportionate and independent investigation of such matters and for appropriate follow-up action.

The terms of reference including the Committee's role and the authority delegated to it by the Board were reviewed and updated during the course of the year under review, more fully to reflect the principles and provisions of the revised Combined Code. These are available on request or can be viewed on the Company's website at www.gusplc.com. The Committee will review annually its terms of reference. It has also agreed a process under which it will review its own effectiveness and recommend any necessary changes to the Board.

The Audit Committee's responsibilities are discharged in the following manner:

- At its meetings in May and November, the focus falls on a review of the Preliminary Announcement/Annual Report and Financial Statements and the Interim, Announcement respectively. On both occasions, the Committee receives reports from the external auditors identifying any accounting or judgemental issues requiring its attention.
- A quarterly report from the Group Internal Auditor is presented at each of the scheduled meetings. In addition, at the March meeting, the Group Internal Auditor submits the department's audit plans for the coming year.
- The external auditors also present their audit plans at the March meeting and, at the September meeting, there is a detailed review of the management letter covering the auditors' findings in respect of the prior financial year.
- Group companies are, from time to time, required to make presentations to the Committee on the subject of risk, its identification, management and control.
- As a matter of routine, the Committee is presented with information on material litigation involving Group companies.

Corporate governance continued

As noted above, one of the duties of the Audit Committee is to make recommendations to the Board in relation to the appointment of the external auditors. A number of factors are taken into account by the Committee in assessing whether to recommend the auditors for re-appointment. These include:

- The quality of reports provided to the Audit Committee and the Board and the quality of advice given.
- The level of understanding demonstrated of the Group's businesses and its sectors.
- The objectivity of the auditors' views on the controls around the Group and their ability to co-ordinate a global audit working to tight deadlines.

The Committee has also agreed a procedure under which it will assess annually the effectiveness of the external audit process. This assessment will cover all aspects of the audit service provided by PricewaterhouseCoopers and will include obtaining a report on that firm's own quality control procedures.

In addition, the Audit Committee has an important role to play through its responsibility for and oversight of the auditor relationship and auditor independence. The Committee recognises that auditor independence is an essential part of the audit framework and the assurance it provides.

Although lower than last year, non-audit fees paid to PricewaterhouseCoopers continue to exceed the audit fee, and the Committee recognises a duty to explain to shareholders the processes it has put in place to allay any fears there might be that the independence of the audit has been compromised.

The Committee has established a set of guidelines covering the type of non-audit work that can be assigned to auditors. These are:

- Further assurance services – the auditors' deep knowledge of the Group's affairs means that they may be best placed to carry out such work. This extends to, but is not restricted to, shareholder and other circulars, regulatory reports, and on occasions, work in connection with acquisitions and disposals.
- Taxation services – the auditors' knowledge of the Group's affairs often provides significant advantages which other parties would not have. Where this is not the case, the work is put out to tender.
- General – in other circumstances, proposed assignments are put out to tender and decisions to award work taken on the basis of demonstrable competence and cost effectiveness.

The Committee receives half-yearly reports providing details of assignments and related fees carried out by the auditors in addition to their normal work, and these are reviewed against the above guidelines. Such assignments carried out in the year under review were:

	£m
■ Further assurance services	1
■ Taxation services	4
■ General	–

The Committee normally meets four times a year and did so during the year under review. Both the external auditors and the Group Internal Auditor are present at the meetings and, in addition, the Committee meets the external auditors without management present.

Oliver Stocken and Lady Patten attended all four meetings. Frank Newman and Sir Alan Rudge missed one meeting each. Andy Hornby was unable to attend the one meeting that took place after his appointment to the Board on 21 January 2004.

Relations with institutional shareholders

The Company recognises the importance of communicating with its shareholders and does this through its Annual and Interim Reports, at the Annual General Meeting and through the processes described below.

Although most shareholder contact is with the Group Chief Executive and the Group Finance Director, supported by management specialising in investor relations, it is the responsibility of the Board as a whole to ensure that a satisfactory dialogue with shareholders takes place.

The Board has reviewed its procedures on this issue in the light of the revised Code. It has agreed the following:

- On two occasions a year, the Group's Director of Investor Relations submits to the Board a full report of all important or relevant issues raised by shareholders, during the course of meetings, and conversations with them. The Board, as a whole reviews this report and the Director of Investor Relations attends that part of the Board meeting.
- Additionally, the Board is keen to have an independent insight into the views of major shareholders and, with this in mind, it will continue the previously established practice of annually commissioning research from a third party adviser across a balanced sample of GUS shareholders. The latter typically control some 20 to 30 per cent of the Company's issued share capital. The findings of the research are presented to the Board by the third party adviser.

Through these processes, the Board is kept abreast of any key shareholder issues. It is additionally important that there should be a direct line of communication to the Chairman available to shareholders particularly if there are issues of concern, whether about performance or about governance. With this in mind, the Chairman wrote to all shareholders holding one per cent or more of the issued share capital emphasising the importance the Board gives to open communication with its shareholders, confirming his availability to meet with them as appropriate and offering to meet them annually if they so wished. In writing this letter, the Chairman confirmed the availability of Sir Alan Rudge, as Senior Independent Director, and offered the opportunity for shareholders to meet the Company's non-executive directors.

Shareholders who do not support a particular AGM resolution do not always seek engagement with the Company to explain their actions or request further information. The Company is keen to understand their reasons for the lack of support and to have a dialogue with shareholders on these issues. Its policy, therefore, will be, insofar as is practicable, to seek engagement with shareholders on such issues.

All directors normally attend the Annual General Meeting and are available to answer shareholders' questions. Voting at the Annual General Meeting is by way of a show of hands by members present at the meeting unless a poll is validly called. Following each vote on a show of hands, the level of proxies lodged on each resolution, the balance for and against the resolution and the number of abstentions is announced.

Corporate Social Responsibility

GUS interprets the phrase Corporate Social Responsibility (CSR) to imply taking due regard of society's expectations of large companies. It shares the widely held view in the business community that these expectations are for steadily higher standards of conduct, and for the Company to take increased responsibility for the direct and indirect effects of its operations.

The range of issues commonly embraced by the term CSR is extremely wide and GUS welcomes the emerging emphasis on materiality: determining those issues which have the potential to affect the Company's strategies and its ability to achieve them. The principal CSR issues relating to GUS are:

- Labour, environmental and social practices in the Group's supply chain.
- Providing a working environment that is conducive to the recruitment and retention of the widest possible range of talented staff.

- Protection of consumer privacy and the proper handling and use of customer information.
 - Provision of a safe and healthy place of work.
 - Providing products of the appropriate quality, including product safety and reliability.
 - The social impact of our products arising from their selection, advertising and sale.
 - Serving customers to their complete satisfaction.
 - The social impact of our products arising from their selection, advertising and sale.
 - The demands that the Group makes upon the environment, principally through our use of energy, the impact of our products, the impact of our transport fleet and our use of bulk materials such as paper and packaging.
 - Opportunities to develop strong community relationships in support of our business objectives.
 - New business opportunities arising from socially-responsible products, and the provision of services to help customers manage these issues.
- The section on internal control, which appears earlier, includes, inter alia, the Board's confirmation that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. This process includes the identification and assessment of the significant risks to the Company's short and long term value arising from SEE matters, as well as the opportunities to enhance value that may arise from an appropriate response. The Group is developing approaches to assessing the materiality of these issues, in line with the emerging guidance on reporting in the Operating and Financial Review.
 - The Board receives adequate information to make this assessment and, in this context, reference should be made to the key procedures described earlier under internal control. Account is taken of SEE matters in any training programmes deemed appropriate on the appointment of new directors.
- (b) **With regard to policies, procedures and verification**
 - The Board has identified supply chain issues as an area of potential risk that might significantly affect the Company's short and long term value. GUS has significant buying power, giving it some degree of responsibility for the actions of the suppliers with which it deals. As GUS takes seriously its own social responsibility, it is only natural that it should want those over whom it has influence to do the same and, in so doing, guard against the risk to its reputation through a potential association with undesirable practices. To this end the Board has approved a set of seven principles that merchandise suppliers and business partners are asked to endorse. These are set out in more detail in the separately published CSR Report. Third party audit programmes are now in place in Argos and Burberry, with merchandise supplier and business partners being selected for audit, based on risk and significance to the business. The Argos programme is to be extended to cover the Homebase supply chain on an equivalent basis. The programme in Experian UK focuses primarily on the environmental performance of the suppliers in support of Experian's commitment to the environmental accreditation ISO14001. This supply base presents in general a much lower risk of social and labour concerns.
- The Company's policies and procedures for managing risks to short and long term value arising from SEE matters are as described earlier under 'Internal Control'.
 - An important aspect of the Company's SEE procedures is that they should be subject to verification and this is reflected in the Group Internal Auditor's membership of the CSR Committee. Two Group Internal Audits per year are reserved for issues sponsored by the CSR Group, with this year's programme including ethical statements and codes of conduct (in the first audit) and the management and control of environmental information (in the second).
 - External verification is provided by Acona, a CSR consultancy practice. Partners from Acona advise GUS on matters relating to CSR, including taking part in the CSR Committee and CSR reporting activity. Specifically with regard to the CSR Reporting, Acona reviews data collection systems and examines the data for completeness and accuracy. It also verifies that all claims in the report can be supported by evidence. The conclusions from Acona's work are available in full in our separately published CSR Report.

As far as possible, GUS seeks to include the understanding and control of these issues in its mainstream business practice. The Group has a number of policies, procedures and verification systems in place to underpin its management in this area. These are described below, following The Association of British Insurers' (ABI) disclosure guidelines, which refer to social, ethical and environmental matters (SEE) and do not use the term CSR.

(a) **With regard to the Board**

- The Board takes regular account of the significance of social, environmental and ethical matters to the businesses of the Company. The responsibility for such matters lies with the Company Secretary who ensures that they feature regularly on the Board agenda, firstly via the Corporate Governance Committee and thence to the main Board meeting. He is supported in this work by a CSR Committee which meets under his chairmanship and which draws on staff with relevant expertise from across all of the Group's businesses. It includes experts in communication, internal audit, community affairs, consumer rights and environment. It is supported by external advisers.
- The Group has a range of policies and procedures covering the other CSR issues identified above which are described in our separately published CSR Report.