

MATERIAL ISSUES, RISKS AND OPPORTUNITIES

MATERIAL ISSUES

Every year the directors determine the key issues which are likely to have the most material impact on the Group's ability to create and sustain value for our stakeholders. In identifying these issues the directors consider external factors, including the economic and trading environments in the countries in which the business operates, the Group's strategy as well as the needs, expectations and concerns of key stakeholders (refer to Our approach to reporting on page 3).

Truworths

The directors confirm that the material issues for Truworths for the 2018 financial period are unchanged, these being fashion risk, supply chain efficiency, account risk management and retail presence.

Office

Material issues have been disclosed for Office for the first time, with the directors determining that these material issues are fashion risk, supply chain efficiency and retail presence. The directors confirm that the material issues for Office for the 2018 financial period are unchanged.

The sections that follow also include report-backs against the objectives and plans for Office for the 2017 financial period. Although these objectives and plans were not disclosed in the Group's 2016 Integrated Report, they were nonetheless set and are disclosed this year to provide a gauge of the performance against them over the period under review.

All financial metrics quoted for Office are pound sterling-based, unless otherwise indicated.

RISKS

Certain of the risks relating to the Truworths and Office material issues are extracted from the key risk registers of the two businesses. The risks in these registers reflect the key risks facing the businesses that could impact on the delivery of the objectives outlined in the Material Issues section if not effectively managed.

OPPORTUNITIES

Medium-term opportunities have been identified for each material issue to provide shareholders with insight into the growth drivers of Truworths and Office over a two to four-year time horizon.



MATERIAL ISSUES, RISKS AND OPPORTUNITIES continued

MAJOR RISKS

TRUWORTHS

LIKELIHOOD	Almost certain					
	Likely		Fluctuation of the Rand and impact on retail selling prices BBBEE certification Increase in counterfeit merchandise could impact on sales	Impact of affordability assessment regulations on account sales and productivity		
	Moderate		Availability of skilled IT human resources for support, projects and business intelligence Loss of key executives and senior employees	Effectively manage risk of the book		
	Unlikely		Increasing competition from international retailers entering South Africa	Distribution and warehousing capacity constraints Dependency on the warehouse management system and throughput A major cybersecurity incident that might lead to the loss of sensitive information		
	Rare			Loss of head office building Availability of key IT systems that enable daily trade Loss of distribution facilities and inability to access the distribution centre, e.g. due to civil action		
		Insignificant	Minor	Moderate	Major	Catastrophic
		CONSEQUENCE				

OFFICE

LIKELIHOOD	Almost certain					
	Likely		Payment Card Industry Data Security Standard (PCI DSS) compliance	E-commerce and store strategy to deal with risk of web sales substituting store sales		
	Moderate			Capability and resourcing of the internal audit function to mitigate risk at a head office and store level, including the risk of fraud and management override	IT system capability and capacity to support current operations and future growth	
	Unlikely			The uncertainty of the impact that Brexit could have on the business Compliance with the Data Protection Act	Management of merchandise and buying decisions Absence of formalised disaster recovery and business continuity plans	
	Rare					
		Insignificant	Minor	Moderate	Major	Catastrophic
		CONSEQUENCE				

RISK RATING BASED ON RESIDUAL RISK

MATERIAL ISSUES, RISKS AND OPPORTUNITIES continued

TRUWORTHS

Managing the risk of fashion

 Refer to **Managing the risk of fashion** on page 55 for more detail.

Performance against objectives and targets in 2017

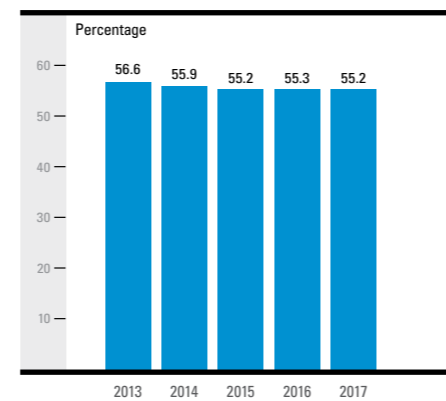
OBJECTIVES AND PLANS FOR 2017	PERFORMANCE AGAINST OBJECTIVES
Ongoing focus on managing the risk of fashion.	<ul style="list-style-type: none"> Continued focus on tried and tested conceptualisation, planning and procurement processes to reduce fashion risk. Tailoring understanding of international trends to the unique South African market.
Adapt ranges to counter the impact of currency devaluation on merchandise pricing.	<ul style="list-style-type: none"> Focus on consolidating fabric purchases to offer better value by achieving better prices while maintaining quality.
Ongoing implementation of the product life cycle management system.	<ul style="list-style-type: none"> System will be implemented in the 2018 financial period.
Ongoing development of the new merchandise management system.	<ul style="list-style-type: none"> Project delayed until the 2018 financial period owing to other priorities, including new warehouse management system, launch of e-commerce and Office integration.
Further development of offshore sourcing processes.	<ul style="list-style-type: none"> Continued focus on early product development in specific merchandise categories with a longer lead time due to greater complexity.
Development of an e-commerce platform and offering.	<ul style="list-style-type: none"> Scheduled for launch in first half of 2018 financial period.
Continue the integration of Office into Truworths' retail processes, where appropriate.	<ul style="list-style-type: none"> Implemented planning tool to assist with sales planning as well as inventory and markdown management. Applied inventory management experience to set targets for inventory levels and turn, which has resulted in better inventory turns and improved sales.

TARGETS FOR 2017	PERFORMANCE AGAINST TARGETS
Group gross margin 51% – 55%	Gross margin at 52.6%
Truworths gross margin 54% – 57%	Gross margin at 55.2%

Challenges encountered in 2017

- Managing the impact of high product inflation on imported merchandise caused by the devaluation of the Rand.
- Managing stock levels in an environment of lower-than-expected sales.
- Countering extensive and continuous product discounting by competitors.

GROSS MARGIN



Truworths
 Ladieswear Emporium 34% (2016: 36%)
 Menswear Emporium 21% (2016: 20%)
 Designer Emporium 13% (2016: 13%)
 Kids Emporium 7% (2016: 6%)
 Identity 16% (2016: 17%)
 Other 9% (2016: 8%)

Key risks and mitigation strategies for 2018

DESCRIPTION OF RISK	RISK MITIGATION
Truworths aims to provide quality fashion to customers each season at appropriate margins. This covers buying processes, fashion monitoring, supplier relationships and ensuring Truworths has skilled buying and planning resources.	<ul style="list-style-type: none"> Apply proven forecasting and design processes and key executive interventions throughout the merchandise life cycle aimed at managing and mitigating the risk of fashion. Manage suppliers to ensure risk is spread across the supply chain. Blend the local and international supply base to take advantage of both quick response and fast fashion. Maintain gross margin within target range. Execute retention strategies for merchandise buyers and planners. Achieve better prices in order to offer better value by consolidating fabric sourcing across brands while maintaining product quality.
Increased international competition.	<ul style="list-style-type: none"> Monitor impact of the international brands targeting the Truworths mass middle-market customer. Constant brand and product innovation, with Office London and e-commerce platform launch in 2018 financial period.
Marked increase in counterfeit merchandise could impact on sales.	<ul style="list-style-type: none"> Monitor counterfeit product in the market and attempt to identify origin. External service providers contracted to uncover source of counterfeit product. Engage with SA Revenue Service to assist them in identifying counterfeit product. Initiate legal action against producers of counterfeit product.
Exchange rate volatility on imported merchandise creates challenges in managing retail selling prices.	<ul style="list-style-type: none"> Forward exchange contracts are used to cover all merchandise imports so price points can be determined at the time of placing orders. Continue to seek opportunities for local supply to reduce reliance on imports including continued investment in Truworths Manufacturing. Improve procurement processes, consolidate fabric sourcing and adjust product ranges to limit product inflation. Acquisition of Office has diversified the Group's currency risk which can provide a hedge against the volatile Rand.

Medium-term opportunity

- Implement a new merchandise management system to support implementation of best practices, provide greater flexibility for merchandise initiatives and improve integration.

Objectives and plans for 2018

- Ongoing focus on managing the risk of fashion.
- Continued consolidation of fabric sourcing and manufacturing to improve value offering for customers.
- Leverage the benefits of fabric and supplier consolidation to improve speed to market.
- Offer merchandise promotions linked to loyalty programme.
- Refocus brand positioning and differentiation between brands offered in the emporium stores.

Targets for 2018

Group gross margin
51% – 55%

Truworths gross margin
54% – 57%

MATERIAL ISSUES, RISKS AND OPPORTUNITIES continued

TRUWORTHS

Optimising supply chain efficiency

 Refer to Optimising supply chain efficiency on page 56 for more detail.

Performance against objectives and targets in 2017

OBJECTIVES AND PLANS FOR 2017	PERFORMANCE AGAINST OBJECTIVES
Capital expenditure of R97 million planned for distribution expansion and development, mainly on the initial phase of the new distribution centre.	<ul style="list-style-type: none"> Construction of the third distribution centre delayed owing to delays with local authority planning approvals. Owing to lower-than-expected sales and a reduction in unit volume, distribution capacity was not under pressure.
Leverage benefits of new warehouse management system.	<ul style="list-style-type: none"> The new system provides more accurate data on the stock position across the distribution centres and improved reporting on warehouse productivity.
Integrate enhanced e-commerce offering into the supply chain.	<ul style="list-style-type: none"> Planning completed ahead of the scheduled launch of the e-commerce platform in the first half of the 2018 financial period.

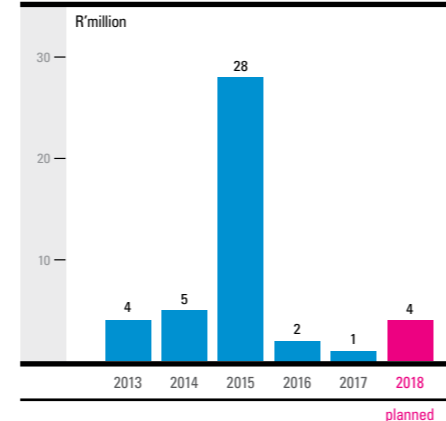
TARGETS FOR 2017	PERFORMANCE AGAINST TARGETS
Inventory turn <ul style="list-style-type: none"> Group: 3.0 times – 4.0 times Truworths: 4.5 times – 5.5 times 	<ul style="list-style-type: none"> Group: 4.5 times Truworths: 5.2 times
Improve distribution centre productivity by 1% – 3%.	Efficiency levels unchanged owing to the challenges experienced during the implementation of the new warehouse management system and processes, as well as a reduction in unit volumes.



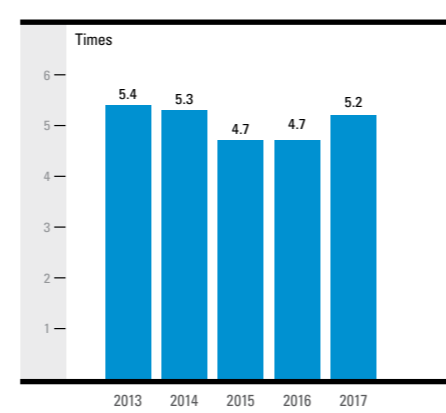
Challenge encountered in 2017

- The implementation of the new warehouse management system in the distribution centres caused delays in stock reaching stores in the early stages of the financial period.

CAPITAL EXPENDITURE ON DISTRIBUTION FACILITIES



INVENTORY TURN



Key risks and mitigation strategies for 2018

DESCRIPTION OF RISK	RISK MITIGATION
Organic and acquisitive growth in the business could result in the need to expand distribution and warehousing capacity.	<ul style="list-style-type: none"> E-commerce orders to be picked from a selection of large emporium stores which will avoid further pressure on distribution centre resources. Ongoing monitoring of distribution centre capacity.
Suppliers not operating to contracted standards of ethical behaviour could result in reputational damage and interruption of supply.	<ul style="list-style-type: none"> Truworths code of conduct for suppliers incorporated in all supplier agreements. Manufacturers are required to comply with ethical standards, labour, health and safety, and environmental legislation.
Dependency on the warehouse management system and throughput.	<ul style="list-style-type: none"> Warehouse management system stable. Up-skilled business resources at the distribution centre to support the Truworths IT team. Focus on process re-engineering to ensure the main distribution centre is able to cope during major peaks. Agreements in place with third party warehousing facilities that can store imported goods to mitigate pressure that could result from high volume deliveries, allowing us to manage the flow of these goods into our distribution centres.

Medium-term opportunity

- Continue to invest in and grow the Truworths Manufacturing division to enhance local supply capabilities.

Objectives and plans for 2018

- Careful selection and management of strategic stock fabric that can be utilised for in-season trading to reduce lead times.
- Consolidating certain product types across the supply chain in order to leverage price benefits, thereby providing continuity and enhanced productivity for suppliers.
- Implement e-commerce offering across all brands in South Africa.
- Improve productivity and throughput time in distribution centres from improved controls and performance measures.

Targets for 2018

Group inventory turn
 3.5 – 4.5 times

Truworths inventory turn
 4.5 – 5.5 times



MATERIAL ISSUES, RISKS AND OPPORTUNITIES continued

The Group has changed its terminology from 'credit' to 'account' when discussing 'non-cash and non-credit card' customers. Management has to adopt a more generic description of the financial product offering that now incorporates a loyalty programme, in order to distinguish the offering from bank credit used by customers in the form of debit and credit cards.

TRUWORTHS

Managing the risk of the book

Refer to *Managing the risk of the book* on page 57 for more detail.

Performance against objectives and targets in 2017

OBJECTIVES AND PLANS FOR 2017	PERFORMANCE AGAINST OBJECTIVES
Develop predictive models and strategies across the account portfolio to respond to the changing economic and trading environment.	<ul style="list-style-type: none"> New models developed and implemented. Existing models rebuilt and implemented. New strategies developed and implemented. Strategy performance post-implementation is in line with expectations.
Continue to invest in technology to unlock the value in the vast customer data available internally and externally.	<ul style="list-style-type: none"> Improved big-data solutions evaluated and proof-of-concepts in progress. Next generation business intelligence tools evaluated.
Commence development of new collections software.	<ul style="list-style-type: none"> Extensive business requirements analysis completed. Project will move into development phase during the 2018 financial period.
Further improve processes and systems to collect affordability assessment documentation.	<ul style="list-style-type: none"> Marginal improvements have been made, but the reluctance and inability of customers to share this information remains the biggest obstacle.
Launch a loyalty programme for both account and cash customers to offer personalised promotions and offers that increase purchase frequency and basket size.	<ul style="list-style-type: none"> Truworths (TruRoyalty) and Identity (iDream) loyalty programmes launched in second half of the financial period. Over 2 million non-account loyalty members.
Relaunch e-commerce with enhanced functionality, order fulfilment, communication and payment capabilities to facilitate omni-channel retailing.	<ul style="list-style-type: none"> Truworths e-commerce platform to be launched in first half of the 2018 financial period, including updated website and online store. Extensive catalogue of Truworths, Identity, kidswear and Office London ranges to be available online.

Challenges encountered in 2017

- Managing the impact of income verification requirement of the National Credit Regulator's affordability assessment regulations on account sales.
- Growing account sales and the active account base as disposable income declined in a deteriorating economic environment.

Key risks and mitigation strategies for 2018

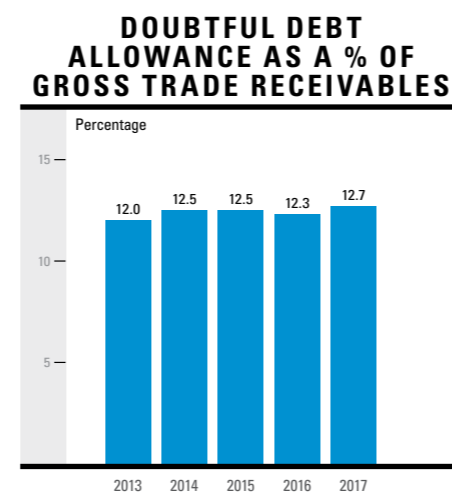
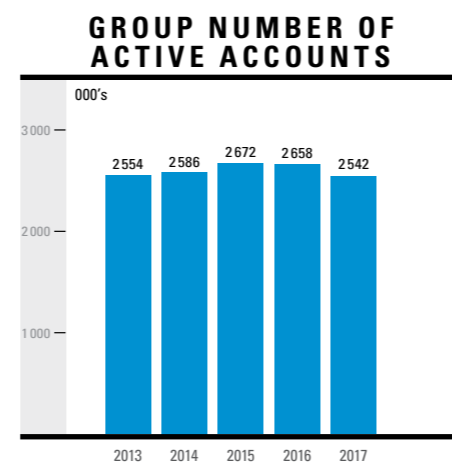
DESCRIPTION OF RISK	RISK MITIGATION
Inability to effectively manage account risk could result in increased bad debt, slower collections, limited new account growth and a reduction in the number of customers able to buy on account.	<ul style="list-style-type: none"> Apply account granting processes consistently, using advanced analytics, scorecards and models. Review account management, collections and acquisition strategies regularly and refine to leverage new data and predictive models. Implement and maintain best-of-breed account management tools that accurately execute account policies, processes and strategies.
National Credit Regulator's income verification requirements contained in the affordability assessment regulations are materially impacting account granting and, consequently, sales.	<ul style="list-style-type: none"> Continue to improve profitability of account strategies by using better scorecards, more data and enhanced decision processes. Ongoing improvements in head office and in-store processes. Instituted legal proceedings together with two other JSE-listed retailers against National Credit Regulator and the Minister of Trade and Industry to challenge certain aspects of the regulations. Court case heard in August 2017 with judgment pending.

Medium-term opportunities

- Offer integrated omni-channel retailing with a clear store versus online strategy.
- Increase the number of active account holders.

Objectives and plans for 2018

- Grow new account sales while maintaining new account quality standards.
- Improve sales from existing customers through account limit management and customer reactivation.
- Improve collections through more effective use of call centre technology.
- Reduce cost of customer engagement through more efficient targeting and communication.
- Continue to review loyalty programmes based on customer experience.
- Launch online store.



TARGETS FOR 2017	PERFORMANCE AGAINST TARGETS
Maintain number of active customer accounts.	<ul style="list-style-type: none"> Active account base declined by 4% to 2.5 million owing to impact of the affordability assessment regulations. Truworths increased market share of active accounts. Year-on-year growth in new accounts opened in second half of financial period.
Maintain the doubtful debt allowance at existing levels of around 12.5%.	<ul style="list-style-type: none"> Doubtful debt allowance increased to 12.7% (2016: 12.3%).
Improve frequency of purchase and basket size from cash and account customers.	<ul style="list-style-type: none"> Frequency of shopping unchanged. Average basket value of active account customers increased by 9%. Average basket value of cash customers increased by 8%.



Targets for 2018

- Increase the number of new accounts opened year-on-year**
- Maintain the doubtful debt allowance at 12.7%**
- Grow the number of loyalty members to above 6 million**

MATERIAL ISSUES, RISKS AND OPPORTUNITIES continued

TRUWORTHS

Managing retail presence

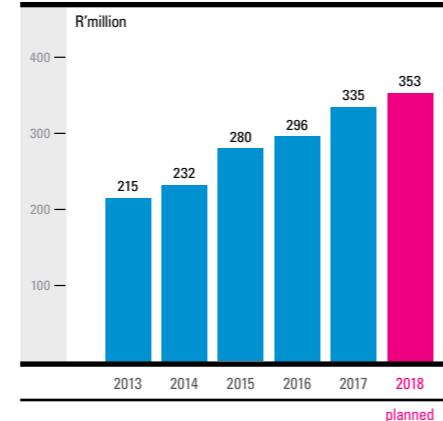
Performance against objectives and targets in 2017

OBJECTIVES AND PLANS FOR 2017	PERFORMANCE AGAINST OBJECTIVES
Trading space expected to grow by approximately 3%.	<ul style="list-style-type: none"> Trading space growth of 1.6%. Net 11 stores opened. 781 stores at period-end (2016: 770).
R332 million committed to store development.	<ul style="list-style-type: none"> R335 million (2016: R296 million) invested in store development.
Evaluate store opportunities in the rest of Africa.	<ul style="list-style-type: none"> 47 stores in the rest of Africa. No new stores opened in the rest of Africa during the period due to economic environment. Continuous evaluation of store performance in the rest of Africa.
Continued expansion of Truworths Kids emporiums.	<ul style="list-style-type: none"> Truworths Kids Emporium footprint expanded to 32 (within larger emporium stores).
TARGETS FOR 2017	PERFORMANCE AGAINST TARGETS
Store electricity carbon emissions of 170 kg per m ² (South Africa only).	<ul style="list-style-type: none"> Carbon emissions of 177 kg per m² (South Africa only).
Roll out 28 Truworths Kids emporiums.	<ul style="list-style-type: none"> Opened 18 Truworths Kids emporiums (within larger emporium stores).

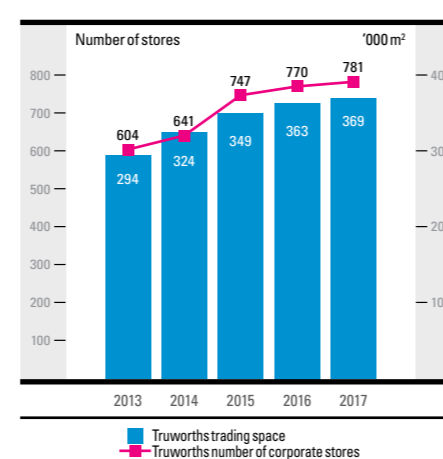
Challenge encountered in 2017

- In certain existing locations in good-performing malls Truworths is overtrading and unable to secure additional space.

STORE DEVELOPMENT CAPITAL EXPENDITURE



GROWTH IN STORE BASE



Key risks and mitigation strategies for 2018

DESCRIPTION OF RISK	RISK MITIGATION
Consolidation of landlords and an increased demand for space, as a result of the increased presence of international retailers, impacting price and availability of retail space, particularly in larger malls.	<ul style="list-style-type: none"> Consolidating existing space and improving efficiencies by introducing new brands into various store formats. Renovating key stores. Early discussions with landlords to secure prime space at competitive rates. New malls present opportunity in prime positions.
Failure to successfully launch the e-commerce platform could impact sales growth.	<ul style="list-style-type: none"> Best-in-class e-commerce platform to be launched. Extensive pilot project undertaken to minimise risk of failure upon implementation.



Refer to Managing retail presence on page 58 for more detail.

Medium-term opportunities

- Consolidate trading space to improve operating efficiency and trading densities by renovating key stores and reprofiling stores by adding new brands.
- Develop digital channels to increase customer engagement and grow online sales, leveraging the benefits of the recently launched loyalty programme.
- Ongoing roll-out of the emporium format.
- Continued cautious expansion in the rest of Africa.

Objectives and plans for 2018

- Trading space expected to grow by approximately 4%.
- R353 million committed to store development.
- Launch Office London in SA.
- Launch new e-commerce platform.
- Continued expansion of Truworths Kids Emporium footprint.

Targets for 2018

Store electricity carbon emissions of 174 kg per m² (South Africa only)

Trading space growth of 4%

MATERIAL ISSUES, RISKS AND OPPORTUNITIES continued

OFFICE

Managing the risk of fashion

 Refer to **Managing the risk of fashion** on page 64 for more detail.

Performance against objectives and target in 2017

OBJECTIVES AND PLANS FOR 2017	PERFORMANCE AGAINST OBJECTIVES
Ongoing focus on managing the risk of fashion.	<ul style="list-style-type: none"> Retail sales grew by 4.5% despite tough trading conditions (52-week basis: 2.5%). Gross margin improved from 45.6% (excluding exceptional items) to 46.0%. Buying and merchandise teams focused on delivering the most relevant and fashionable footwear product to the marketplace.
Gain leverage from Truworths' expertise.	<ul style="list-style-type: none"> Buying processes aligned with Truworths and now more robust. Implemented new merchandise management planning system similar to that of Truworths.
Continue to work closely with key suppliers to track trends and ensure our products reflect the latest look.	<ul style="list-style-type: none"> Trend information sourced through international trade fairs, online subscriptions, social media, international and local retail inspiration as well as global and local street trends. Celebrity styling and events monitored to ensure the 'must have' items are available. Collaborated on the launch of many branded products.
Commitment to providing customers with product that is manufactured under ethical working conditions.	<ul style="list-style-type: none"> Specifically with regard to the awareness of modern slavery and human trafficking, Office applies a code of conduct across its own-label supply chain that is based on the International Labour Organisation conventions and recommendations. All own-brand suppliers and manufacturers are required to adhere to the code of conduct. A formal statement by the board supporting Office's commitment to preventing modern slavery and human trafficking is published on the website.
Reduce reliance on key brands.	<ul style="list-style-type: none"> Brand dependency is diversified across a wide range of brands.

Challenges encountered in 2017

- Initial uncertainty following the Brexit vote dampened product demand in the early stages of the financial year.
- Brexit concerns also contributed to the devaluation of sterling which impacted the price of euro and US dollar imports.
- Change in supply operations and reduced customer demand for certain brands was mitigated by planned diversification of reliance across brands.

Key risks and mitigation strategies for 2018

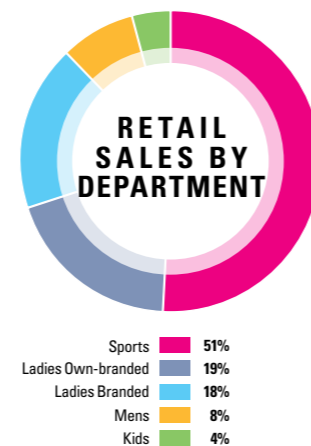
DESCRIPTION OF RISK	RISK MITIGATION
Need to ensure that Office remains at the forefront of the UK footwear fashion market.	<ul style="list-style-type: none"> London heritage and consumer demographic ensures Office is among the first to identify continual changes in footwear fashion. Embedded relationships with major brands and collaboration on development of certain product ensures that Office is able to track trends and ensure that product reflects the latest look. Continued customer feedback through store employees, social media and customer polling. Specialist own-brand suppliers identified based on their ability to deliver the most exclusive desirable product at the best quality, coupled with required order flexibility and supply reliability.
Possible increased competition from new entrants into the market.	<ul style="list-style-type: none"> Maintain close ties with branded footwear suppliers. Develop exclusive ranges with certain brands. Extend social media footprint to provide a more 'lifestyle' offering to brands.

Medium-term opportunities

- Leverage the merchandise management system to support implementation of best-practice systems and processes.
- Provide greater flexibility for merchandise initiatives and improve integration.
- Develop customer-centric, loyalty-based marketing programme to drive new and repeat purchases and incremental sales.

Objectives and plans for 2018

- Ongoing focus on managing the risk of fashion.
- Ongoing development of the new merchandise management system.



Target for 2018
Gross margin of 44% – 47%

MATERIAL ISSUES, RISKS AND OPPORTUNITIES continued

OFFICE

Optimising supply chain efficiency

Performance against objectives and target in 2017

OBJECTIVES AND PLANS FOR 2017	PERFORMANCE AGAINST OBJECTIVES
Reduce inventory levels while maintaining depth and range of product to meet customer demand.	<ul style="list-style-type: none"> Inventory levels 17% lower at June 2017 compared to the prior period-end. Inventory turn increased from 2.7 times at June 2016 to 3.4 times at June 2017 (in pounds). Levels of marked-down stock reduced by 17.5%.
Alignment with Truworths' retail processes and methodologies.	<ul style="list-style-type: none"> Extensive engagement between Office's and Truworths' teams with emphasis on merchandise to ensure best practice and consistency in methodology.
Continue to improve product availability and efficiency to online customers.	<ul style="list-style-type: none"> Express and standard delivery options extended to international customers. Growth of 'click & collect' activity from store. Increase in number of 'ship from store' orders allows more store stock to be made available for selling online.

TARGET FOR 2017	PERFORMANCE AGAINST TARGET
Inventory turn 2.5 – 3.0 times	Inventory turn 3.4 times

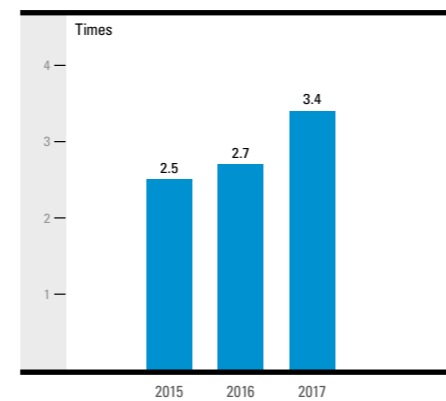
Challenges encountered in 2017

- Managing the impact of the devaluation of sterling on product pricing following the Brexit vote at the start of the financial year.
- Reducing stock levels to achieve inventory turn targets without negatively impacting sales.

Key risk and mitigation strategies for 2018

DESCRIPTION OF RISK	RISK MITIGATION
Office is exposed to exchange rate volatility on imported merchandise.	<ul style="list-style-type: none"> Foreign exchange hedging policy to reduce the adverse impact of currency fluctuations. Net exposure to euro 11% and US dollar 3%. Natural internal hedge as stores in Germany and the Republic of Ireland are euro-based.

INVENTORY TURN



Refer to Optimising supply chain efficiency on page 66 for more detail.

Medium-term opportunity

- Identify new sources of supply to mitigate the potential macroeconomic impact of Brexit.

Objectives and plans for 2018

- Create capacity for further investment in new stock by further reducing aged stock holdings while maintaining improved inventory turn ratios.
- Optimise benefits of new merchandising system.



Target for 2018
 Inventory turn of 3.0 – 3.5 times

MATERIAL ISSUES, RISKS AND OPPORTUNITIES continued

OFFICE

Managing retail presence

Performance against objectives and target in 2017

OBJECTIVES AND PLANS FOR 2017	PERFORMANCE AGAINST OBJECTIVES
Optimise physical retail presence.	<ul style="list-style-type: none"> Trading space decrease of 0.4% (2016: 2.4% growth). Net three stand-alone stores opened (five stores opened and two closed). Latest international store opened in Essen, bringing German store footprint to eight.
Optimise concession store presence.	<ul style="list-style-type: none"> Opened two and closed eight concession outlets.
Trial new store design.	<ul style="list-style-type: none"> New store design concept being piloted as part of expansion and refurbishment of existing store in Arndale, Manchester.
Continue to expand e-commerce presence.	<ul style="list-style-type: none"> E-commerce now 28% of total sales. 76.5 million visits to Office's websites, an increase of 11% (2016: 69.2 million). Growth driven by continuous development in web and mobile design and functionality, channel expansion, aggressive product launch calendar and competitive delivery and service.

TARGET FOR 2017	PERFORMANCE AGAINST TARGET
Trading space growth of 1%	Trading space decrease of 0.4%



Challenges encountered in 2017

- Business rates (a tax levied by local authorities in respect of non-domestic properties) are usually revalued every five years, but the UK Government postponed the revaluation scheduled for 2015 until 2017, delaying the impact of the increased costs to business.
- The revaluation of business rates in the UK with effect from April 2017 has resulted in an overall increase of approximately 4% in the business rates payable across the store portfolio. However, certain stores have incurred larger increases, notably in central London where increases have been significantly higher.
- A number of five-year rent reviews came up during the period, resulting in escalated rental expenses.



United Kingdom 65%
 E-commerce 28%
 Rest of Europe 7%

Key risks and mitigation strategies for 2018

DESCRIPTION OF RISK	RISK MITIGATION
Managing the balance between e-commerce and store profit contribution to the business.	<ul style="list-style-type: none"> New store concept rolled out during August 2017. Managing cost base very closely. Ability to manage e-commerce's flexible cost base as the business develops.
The planned implementation of General Data Protection Regulation (GDPR) from May 2018 will change laws relating to the collection, storage and usage of customer data relating to the e-commerce site.	<ul style="list-style-type: none"> Currently in discussion with legal advisers to improve processes and implement required changes to systems and processes.

Medium-term opportunities

E-commerce:

- Customer experience: focus on website design, functionality and removing customer struggle points to further increase conversion rates. Includes improving delivery options and offering customers additional ways to pay, including international payment options.
- Extend sales of Office products via third party marketplace and concession websites.
- Customer marketing and relationship management: continued investment in online marketing to drive new customer acquisition and development of customer relationship programmes to increase retention.

Physical stores:

- Open 10 – 15 new stores in the UK by the end of 2019.
- Open approximately 5 new stores in Europe over the next three years.

Wholesale:

- Expand the wholesale channel.



Refer to **Managing retail presence** on page 65 for more detail.

Objectives and plans for 2018

E-commerce:

- Continue investment in digital marketing to drive new and repeat purchases.
- Improve customer experience by introducing new Office mobile app, adding new currencies on website to support international sales and enabling customers to check stock levels in-store.
- Ongoing transformation of the look of all digital platforms to ensure a consistent brand experience across all channels, particularly social media.

Physical stores:

- Trading space growth of 2%.
- New store design concept to be incorporated in all new and refurbished stores.

Target for 2018
 Trading space growth of 2%