

## Risks to be managed:

### 1. Regulation and changes in regulation

Boots operates in regulated markets and is subject to significant governmental regulation. As a major retailer, especially one in the field of healthcare, Boots is subject to complex regulations both in the UK and elsewhere. This relates not only to the products we manufacture and sell, but to virtually every area of our business, from the packaging and labels we use, to how we dispense, process and are reimbursed for NHS prescriptions. Regulatory changes may occur at any time, which may have cost implications for Boots or may otherwise adversely affect our business.

In addition to the regulations mentioned above, our business is subject to increasingly stringent laws relating to pollution, health and safety, packaging, labelling, product safety and protection of the public and the environment. Failure to comply with relevant laws could have damaging consequences for our business, including fines and harm to our reputation.

### 2. Trends in consumer spending and damage to our reputation or brand

As a Health and Beauty retailer, Boots will be subject to changes and trends in retail and consumer spending and preferences in that market. We may be particularly affected during recessionary periods or periods of low consumer confidence. In addition, our continued success depends on our reputation and the strength of the 'Boots' brand and our principal trading brands such as 'Nº7'. If anything should damage that reputation – for example, a decline in product quality or a failure on our part to respond to changing customer demand and preferences – our business would inevitably suffer.

### 3. Increasing competition

Although regulated in part, our industry is already highly competitive, and it is always a possibility that existing rivals will attempt to increase the pressure on Boots, or that new ones will enter our market.

### 4. Increase in operating costs

Owing to the nature of our business, increases in oil, gas, electricity, labour, rents and other costs may increase our operating costs and many of these cost increases will be outside our control.

### 5. Operational problems

Boots sales are dependent on the efficient functioning of our manufacturing, distribution and, in particular, IT infrastructure. If major disruption occurred – for example, a serious interruption to the supply of raw materials or extreme equipment failure – our results and cash flow could be adversely affected.

### 6. Pension scheme shortfalls

Whilst we believe The Boots Pension Scheme is currently strong, and its investment strategy is calculated to reduce the impact of market movements, so as to try to ensure the scheme can continue to meet its liabilities, if the value of the scheme was to decline in relation to its liabilities, Boots might need to make an additional contribution to cover any shortfall. This could have an adverse impact on results and cash flow, particularly given the relative sizes of the Boots Pension Scheme and Boots Group PLC.

### 7. Possible product liability claims

Any manufacturer or retailer is potentially vulnerable to product liability claims. Boots could also face liability and/or reputational damage relating to counterfeit products, re-labelling of products, contamination or mishandling issues or in respect of its discontinued business activities. Any such claim could arise which could have an adverse impact on results and cash flow.

## Our approach to risk management:

Every business faces a variety of risks which may compromise its performance and its ability to meet its strategic objectives.

Our executive team plays the leading role, monitoring our overall risk profile and regularly reporting to the board through the audit committee. In addition, the executive team is responsible for providing clear guidelines on what Boots considers to be acceptable levels of risk.

These guidelines seek to enable people throughout our business to use their expertise both to identify risks that could undermine our performance and to devise ways of bringing them within acceptable levels. Where we identify risks that are not acceptable, we develop and agree action plans with clear allocation of responsibilities and timescales for completion. We try to ensure that the progress of our action plans is monitored and reported upon.